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VETERANS' ADMINISTRATION FY 1988 BUDGET, THE VET CENTER PROGRAM, AND HOMELESS VETERANS ISSUES

HEARINGS

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

The Veterans' Administration FY 1988 Budget and S. 6, S. 279, and S. 477

FEBRUARY 18 AND 19, 1987

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CONTENTS

FEBRUARY 18, 1987

Page

Veterans' Administration FY 1988 Budget, the Vet Center Program, and Homeless Veterans Issues 1

OPENING STATEMENTS

Chairman Cranston 2
  Prepared statement of Chairman Cranston 126
Senator DeConcini 134
Senator Mitchell 139
Senator Murkowski 26
Senator Rockefeller 24
  Prepared statement of Senator Rockefeller 137
Senator Simpson 38
Senator Thurmond 1

WITNESSES

Egan, Paul S., Deputy Director, National Legislative Commission, The American Legion 57
  Prepared statement of Mr. Egan 195
Kellar, Leroy, veteran and resident, Community for Creative Nonviolence Shelter, Washington, DC 6
Leaveck, Michael R., Legislative Director, Vietnam Veterans of America, accompanied by Richard F. Weidman, Director of Government Relations; and Thomas A. Sherwood, Director of Health Policy and Planning 58
  Prepared statement of Mr. Leaveck 224
Littlejohn, Ben, veteran and resident, Community for Creative Nonviolence Shelter, Washington, DC 8
Moses, Jesse, veteran and resident, Community for Creative Nonviolence Shelter, Washington, DC 7
Shasteen, Hon. Donald E., Assistant Secretary of Labor for Veterans' Employment and Training, U.S. Department of Labor, accompanied by Bill Prince, Deputy Assistant Secretary of Labor; and Dr. Daniel R. Cloutier, Consultant to U.S. Department of Labor 13
  Prepared statement of Mr. Shasteen 141
Sommer, John F., Jr., Deputy Director, National Veterans Affairs and Rehabilitation Commission, The American Legion 57
  Prepared statement of Mr. Sommer 195
Turnage, Thomas K., Administrator of Veterans' Affairs, Veterans' Administration, accompanied by Thomas E. Harvey, Deputy Administrator of Veterans' Affairs; Dr. John A. Gronvall, Chief Medical Director; R. John Vogel, Chief Benefits Director; Arthur S. Hamerschlag, Chief Memorial Affairs Director; and Donald L. Ivers, General Counsel 28
  Prepared statement of Mr. Turnage 174

FEBRUARY 19, 1987

Veterans' Administration FY 1988 Budget, the Vet Center Program, and Homeless Veterans Issues 67

Page

WITNESSES

Custis, Dr. Donald R., Director of Medical Services, Paralyzed Veterans of America ... 74
- Prepared statement of Dr. Custis ... 304

Gorman, David W., Assistant National Legislative Director for Medical Affairs, Disabled American Veterans ... 68
- Prepared statement of Mr. Gorman ... 258

Gourley, Willard, Vice Chairman, BarclaysAmerican/Mortgage Corp., Charlotte, NC, and Vice President, Mortgage Bankers Association of America ... 83
- Prepared statement of the Mortgage Bankers Association of America ... 323

Magill, James N., Director, National Legislative Service, Veterans of Foreign Wars of the United States ... 69
- Prepared statement of Mr. Magill ... 271

Passamaneck, David J., National Legislative Director, AMVETS ... 71

Powell, R. Jack, Executive Director, Paralyzed Veterans of America ... 72
- Prepared statement of Mr. Powell ... 286

Sabin, Stan H., Chair, Real Estate Finance Committee, National Association of Realtors ... 86
- Prepared statement of Mr. Sabin ... 360

Wiseman, Shirley McVay, Vice President/Treasurer, National Association of Home Builders ... 85
- Prepared statement of Ms. Wiseman ... 345

APPENDIX

Bills:
- S. 6—A bill to amend title 38, United States Code, to improve various aspects of Veterans' Administration health-care programs, to provide certain new categories of persons with eligibility for readjustment counseling from the Veterans' Administration and to postpone the transition period for the Vet Center Program, to authorize the establishment of a pilot program for the furnishing of noninstitutional care to certain veterans, and to increase the per diem rates paid to States for providing care to veterans in State homes; and to prohibit the excessing of certain Veterans' Administration properties; and to promote greater emphasis by affiliated health-professional training institutions on geriatric training and research; and for other purposes ... 93
- S. 279—A bill to amend title 38, United States Code, to postpone the transition period for the Veterans' Administration Vet Center Program and to delay the due date of certain reports related thereto; and to delay the due date of a report on post-traumatic stress disorder among Vietnam-era veterans, and for other purposes ... 113
- S. 477—A bill to assist homeless veterans ... 117

Letter:
- Hon. Donald E. Shasteen to Senator Cranston regarding the helping of three unemployed homeless veterans attain employment ... 376

Statements:
- Bourie, James G., National Service Director, AMVETS ... 378
- Johnson, Richard W., Jr., Director of Legislative Affairs, Non Commissioned Officers Association of the United States of America ... 390
- Paulson, Jack, President, California Association of Realtors ... 406

Written questions and the responses:
- Chairman Cranston to:
  - Congressional Budget Office ... 412
  - Department of Labor ... 415
  - Mortgage Bankers Association of America ... 418
  - National Association of Realtors ... 422
  - Non Commissioned Officers Association ... 425
  - Paralyzed Veterans of America ... 429
  - The American Legion ... 432
  - Veterans' Administration ... 437
- Senators Evans and Adams to the Veterans' Administration ... 516
- Senator Mitchell to the Veterans' Administration ... 522
- Senator Murkowski to the Veterans' Administration ... 529
- Senator Specter to the Veterans' Administration ... 571
- Senator Stafford to the Veterans' Administration ... 575

VETERANS' ADMINISTRATION FY 1988 BUDGET, THE VET CENTER PROGRAM, AND HOMELESS VETERANS ISSUES

WEDNESDAY, FEBRUARY 18, 1987

U.S. Senate,
Committee on Veterans' Affairs,
Washington, DC.

The committee met, pursuant to notice, at 12:36 p.m., in room SR-418, Russell Senate Office Building, Hon. Alan Cranston (chairman of the committee) presiding.

Present: Senators Cranston, DeConcini, Mitchell, Rockefeller, Graham, Murkowski, Simpson, Thurmond, and Specter.

OPENING STATEMENT OF SENATOR THURMOND

Senator **Thurmond**. The committee will come to order. The chairman, Senator Cranston, will be here in a little bit. In the meantime, I have a brief statement I am going to make; then I have another hearing I have to get back to.

It is a pleasure to be here today to receive the testimony on the Veterans' Administration budget for fiscal year 1988, the Vet Center Counseling Readjustment Program, and the Homeless Veterans Assistance Act. Each of these issues deserves our close attention.

I want to take this opportunity to thank the chairman for scheduling this hearing and thank our distinguished guests from the Veterans' Administration, the Department of Labor, and the service organizations for taking time to be with us today.

Due to our huge national debt, no Federal program should be exempt from close congressional scrutiny. Because we must reduce the deficit, all Senate committees face the difficult task of weighing competing demands for limited resources.

At the same time, we must ensure that necessary Federal programs are not unreasonably curtailed. In this regard, I want to commend the administration for their work in putting together a budget which provides for nearly $27.6 billion in budget authority for the Veterans' Administration, an increase of nearly $548 million over last year. At the same time, I have concerns about the proposed rescission of $75 million from the medical program and the proposed increase in the home loan origination fee from 1 percent to 2.5 percent.

I am not fully convinced these are the best ways to achieve budget savings. Nevertheless, I will carefully review testimony on both of these important matters.

And finally, I look forward to reviewing the testimony on the Vet Center Counseling Readjustment Program and on the Homeless Veterans Assistance Act.

I regret I can't stay longer. Senator Cranston, I think, will be here in a few minutes. Thank you very much.

We will recess now until the chairman arrives.

[Whereupon, at 12:38 p.m., the hearing was recessed.]

[The hearing was reconvened at 12:40 p.m.]

OPENING STATEMENT OF CHAIRMAN CRANSTON

Chairman **Cranston**. This committee will reconvene.

I welcome those of you who are present. Perhaps you have already been welcomed by Senator Thurmond. I want to cover several topics in an opening statement.

Basically, we are going to be covering three matters: First, the fiscal year 1988 budget for veterans' programs; second, legislation that Senator DeConcini and I each introduced, S. 279 and section 4(b) of S. 6, respectively, to postpone the beginning of the 2-year transition of the Vet Center Program; and third, S. 477, the proposed "Homeless Veterans Assistance Act of 1987", a bill that Senators Matsunaga, DeConcini, Mitchell, Rockefeller, Graham, and I introduced on February 4.

This is a very full agenda, and the hearing will run until about 3:30 p.m. today and resume tomorrow morning at 11:00 a.m. I would like to thank the many witnesses who cooperated with us in providing their written testimony last Friday as requested. Your efforts are very much appreciated, as is everyone's cooperation in connection with the changes that were necessary for today's and tomorrow's hearing.

I am sorry that we have had to keep changing the schedule, but other matters have intervened that have compelled us to do so.

The first issue of concern that will be addressed in today's hearing is the problem of homeless veterans and S. 477. Homelessness is a tragic reality for a growing number of Americans in our Nation. Every dimension of this problem is deeply troubling, and I am working hard to develop and enact legislation to help all individuals suffering from lack of adequate shelter and to prevent others from joining their ranks.

As the chairman of this committee, I am especially concerned by reports that veterans account for a disproportionately large part of the homeless population and I am deeply committed to ensuring that America responds compassionately to the needs of our Nation's homeless veterans. According to some estimates, 40 to 50 percent of our homeless citizens are veterans, a shocking figure.

Several weeks ago, I visited a shelter operated by the Community for Creative Nonviolence here in Washington. In the course of that visit, Mitch Snyder told me that, based on his observations in a large number of cities, more than half of the homeless individuals are veterans.

After chairing a January 29 hearing of the Subcommittee on Housing and Urban Affairs of the Banking Committee—a subcommittee that I chair—I introduced S. 477, which is described in more detail in my longer written statement. This bill is designed to address the plight of the homeless veteran by prescribing action in five specific areas of concern.

First, this legislation would authorize the VA to assist in the provision of shelter for homeless veterans in two principal ways—first, by authorizing the VA to transfer for no or minimal consideration hard-to-sell houses from the agency's inventory to nonprofit organizations for use primarily as shelters for homeless veterans and their families; and second, by authorizing the VA to make available underutilized VA facilities for use as shelters for homeless veterans. In neither case would the VA operate the shelters or be responsible for their activities.

In response to concerns that the bill might be administered in such a way as to be a drain on the loan guaranty revolving fund, something I frankly cannot imagine the VA doing with this discretionary authority, at a markup next week I will amend section 2 of the bill to restrict the authority to transfer homes so as to minimize any financial detriment to the revolving fund and to remove any authority to lease homes.

Second, S. 477 would require the VA to establish a pilot program for at least 2 years in 10 geographic areas with significant populations of homeless veterans under which various activities would be undertaken to improve the VA's ability to assist these veterans.

Third, S. 477 would require the VA both to report on and to increase its outreach efforts to homeless veterans to ensure that they receive the health care, job counseling, and income maintenance support for which they are eligible.

Fourth, the bill would require the VA, in coordination with the Departments of Labor, Health and Human Services, HUD, and Defense, to determine the number and service periods of, and other data regarding, veterans who are homeless and what veterans' benefits they are eligible for.

Fifth, because of concerns that a significant percentage of homeless individuals are suffering from chronic mental illness disabilities, S. 477 would amend a previously mandated VA study on services provided the veterans with such chronic disabilities to require the report to include the number of veterans suffering from chronic mental illness disabilities who were furnished VA hospital, domiciliary, or nursing home care in each of the last 3 fiscal years and to comment on any changes of the numbers of such veterans being furnished each type of care, with a particular emphasis on any changes resulting from the VA's implementation of its resource allocation methodology.

The bill contains another provision relating to homeless chronically mentally ill veterans regarding VA's facilitating their treatment in community residential treatment facilities.

In view of the enactment, on the motion of Senator Murkowski in H.J. Res. 102 last week, of the chronically mental illness legislation that this committee has twice previously reported and the Senate has twice passed, I am exploring how these provisions in S. 477 should be modified.

The second issue before the committee today relates to the VA's Readjustment Counseling Program for Vietnam era veterans. Both section 4(b) of S. 6 and S. 279 would provide a basis for delaying by 1 year, from October 1, 1987 to October 1, 1988, the date on which a

2-year transition in that program is to begin. As the author of the legislation that initially established the VA's Readjustment Counseling Program and extended it, I have followed this program closely since its inception and have been gratified with its success.

As described in more detail in my longer, written statement, there are a number of milestones in current laws, as amended in 1983 and again last year, which are related to a process whereby the existing Readjustment Counseling Program is scheduled to undergo a 2-year gradual transition beginning October 1, 1987, from a program providing services primarily through Vet Centers to a program providing such services primarily through general VA health care facilities, such as medical centers and outpatient clinics.

Each of these milestones, which relate to the submission of reports and plans for the transition process, follows from the date, October 1 of last year, by which the VA was mandated to submit a report to the two Veterans' Affairs Committees on the initial results of the comprehensive study of the prevalence and incidence among Vietnam veterans of post traumatic stress disorder, PTSD, and other post-war psychological problems in readjusting after their service.

This approach of a comprehensive study, together with sequenced reports, was designed to enable both the VA and the Congress to make decisions about the future of the Readjustment Counseling Program, including the nature and timing of its integration into other VA health care facilities with the best information available about the continued extent of readjustment problems among Vietnam veterans.

Unfortunately, the study timetable has become seriously disrupted, and the VA has advised that the report on the study will not be submitted prior to October of this year, a year behind schedule.

Because I continue to consider this study vitally important in determining the potential needs of Vietnam veterans for readjustment counseling and related services, I believe that as originally conceived it definitely should be considered in the planning for the future of the Vet Center Program. To accomplish this goal, both section 4(b) of S. 6 and S. 279 would provide for a 1-year delay until October 1, 1988 in the start of the transition period.

I am delighted with the support for these provisions, including the VA's, in the testimony to be presented at these hearings; and I intend to move forward with legislation based on these provisions at the committee's markup next week.

It is long past time for the law to be changed to reflect the reality of the delay in the PTSD psychological problem study. Moreover, the workload for the Readjustment Counseling Program is not declining. In fiscal year 1986, 162,000 new visits were made and a total of over 880,000 counseling sessions were provided. Both these figures are greater than the fiscal year 1985 figures.

Finally, and a major concern today and tomorrow, is the budget for veterans' programs. I regret very much that I cannot be very positive about the administration's budget, but it is once again inadequate when it comes to honoring our commitments to those whose services and sacrifices have kept our Nation strong and free in the 20th century.

This OMB wrung-out document lacks vision and it lacks vitality. It is unfair to today's veterans and turns a blind eye to tomorrow's needs. To provide for vital relevant programs for fiscal year 1988 and on into the 1990's, I will be proposing and seeking the committee's support for a number of changes in what the administration has submitted.

First, in the area of VA health care, we must reject the administration's proposals to eliminate 4,400 staff years from VA medical facilities and to bar all VA nursing home construction. With a more realistic base restored, we must move forward to meet the challenges of today and tomorrow.

Second, regarding benefits programs, Congress should once again reject the administration's unfair proposals to eliminate millions of war veterans' entitlements to a plot allowance and to impose a special tax on veterans in the form of a 150-percent increase in the loan guaranty fee.

Third, we must provide cost-of-living increases for a number of service-connected benefits for which COLAs have not been provided in several years.

Fourth, the Department of Veterans' Benefit staffing has been spread very thin during the last few years, and the administration now proposes a further nearly-300-staff-year reduction. Those 300 employees are badly needed to provide benefits counseling and outreach and claims processing and adjudication services and to administer the Loan Guaranty Program.

Fifth, nothing in this budget provides any impetus for dealing with the tragedies of joblessness or homelessness among veterans. For example, no funding is proposed for the Veterans' Job Training Act Program, and the numbers of local veterans employment representatives is proposed to be cut by 195 staff years.

The budget is flat wrong—flat wrong—in these respects. I will be proposing authorization for fiscal year 1987 supplemental appropriations to get VJTA back into operation, additional funding for the program in fiscal year 1988, and restoration of funding for LVERs.

In S. 477, we are developing a program to meet the shelter, employment, mental health, and other needs of homeless veterans.

Sixth, it has been 6 years since the VA loan guaranty maximum has been increased, and I am again proposing an increase so that veterans in high-cost housing areas can use this benefit.

Finally, the budget must also provide room for the enactment of radiation exposure benefits legislation.

Before closing, I would like to take a brief moment to comment on the White House-initiated welfare reform proposal. If the press descriptions of it are anywhere near accurate—and I have reason to believe they are—it would entail giving State governments control over eligibility for and the resources needed to provide VA pension and health care for certain veterans, as well as authority over the level of benefits actually provided to veterans.

That is a totally unacceptable policy. It is antithetical to our entire system of veterans' benefits. These are Federal programs and Federal obligations for veterans of the U.S. Armed Forces. I will do all I can to ensure that no such proposals are enacted and to ensure that this committee's jurisdiction over welfare reform proposals affecting veterans' benefits and programs is vindicated and upheld.

Again, thanks to all the witnesses for the testimony to be offered on the issues before us. I look forward very much to hearing from each of you.

[The prepared statement of Chairman Cranston appears on p. 126.]

Chairman CRANSTON. I would now like to ask the homeless veterans panel to please come forward for their testimony. It consists of Jesse Moses, Leroy Kellar, and Ben Littlejohn, veterans and residents of the shelter at Second and D Streets, N.W., Washington, D.C.

Let me first say that I deeply appreciate your willingness to appear before the committee today. Your testimony can be of great assistance to us as we try to understand the causes of homelessness among veterans and others and to develop new ways to treat this tragic problem.

I am particularly determined that the VA use its best efforts to assist veterans who are homeless. I would like to ask each of you in turn to tell the committee about your personal experiences in the military and thereafter: What led to your present situation, and what contact you have had with the VA or other Government agencies in connection with programs for veterans and other Government programs.

Because we have a full witness list this afternoon, please make your statement in 5 minutes or less. I know that may not be easy, but just try to compress it down to 5 minutes because we have a lot to do today and tomorrow.

That will leave time for me to ask questions and for others if they are here to ask questions, and we won't be able to do that if your statements run too long.

Leroy, I remember meeting you at the shelter a few weeks ago, and I suggest you go first.

STATEMENT OF LEROY KELLAR, VETERAN AND RESIDENT OF COMMUNITY FOR CREATIVE NONVIOLENCE SHELTER, WASHINGTON, DC

Mr. KELLAR. Yes, sir. First of all, I would like to thank you, Senator Cranston, for the opportunity to speak here today to you and the panel.

Basically, I was disabled in the service. I am not too good at going into details.

Chairman CRANSTON. Where did you serve?

Mr. KELLAR. In the U.S. Army, sir.

Chairman CRANSTON. Where?

Mr. KELLAR. Over in USLA and NATO.

Chairman CRANSTON. If you could describe basically how you landed in the shelter?

Mr. KELLAR. When I came back home, I was unable to hold down any jobs. I was in and out of hospitals and treatment programs. I had several suicidal attempts. I tried going to the VA for assistance through the medical facilities; and normally, they would keep me for 2 to 3 weeks and then release me and send me home and put me on medications, and that was about all they did for me.

I came here to Washington, D.C. I was living on the streets back home. I have had my family try to help me out as much as they could. I have been through marriages—three marriages now. I am working on my third divorce now.

And I have been homeless for about the last 10 to 11 years now. I have just stayed here in Washington, D.C. in the shelter here for the last 2½ to 3 years, roughly.

Chairman **Cranston**. Where did you stay before that?

Mr. **Kellar**. Oh, I have lived on the road. I have been in and out of hospitals, at my parents' house, at my brother's house, the Salvation Army, just about every kind of little church mission there is to stay at, and beside snow banks on the side of the road.

Chairman **Cranston**. Are you unable to get employment?

Mr. **Kellar**. I have gone through approximately 120 jobs since I have been out. I have not been able to hold down a job due to my physical disabilities and several other problems that I have had.

Chairman **Cranston**. Thank you very much. I have some other questions I will pose to you as a group for whoever wishes to answer. Who wants to go next? Jesse?

STATEMENT OF JESSE MOSES, VETERAN AND RESIDENT OF COMMUNITY FOR CREATIVE NONVIOLENCE SHELTER, WASHINGTON, DC

Mr. **Moses**. Yes. First of all, Senator Cranston, I met you down at the shelter, too, a couple weeks back. I would like to thank you for allowing us to be here this afternoon.

Chairman **Cranston**. Thank you.

Mr. **Moses**. My experience in the military was similar to so many other veterans. I was a sergeant in the Army, stationed in the Republic of Vietnam in 1968–69. I was injured as a result of rocket fire into the compound in Cameron Bay. I was treated at military facilities in Vietnam, sent back to the United States for rehabilitation.

Consequently, I was discharged from the military some 8 years later. I stayed in the military 10 years. My intention was to make a career out of it, but it didn't work out that way. In any case, the reason for homelessness for me—and I am sure for many other veterans—are as numerous as they are individuals who are homeless.

My homelessness is not a result of Vietnam because I think, after 4 or 5 years, I sort of readjusted and accepted the fact that what has happened has happened, and the situation is as is.

My homelessness is a result of being injured on the job and not receiving the compensation; that is being taken care of right now.

The Vietnam era veteran, in my opinion, has—not like previous veterans of World Wars I and II and Korea—basically seemingly been singled out, for whatever reasons. Society has singled us out, and we are supposed to be the junkies, we are a bunch of drug addicts, and so forth and so on, which I am neither. And the Government for some reason seemingly has made it more difficult for us to enjoy the benefits that previous veterans have enjoyed, for whatever the reasons are.

My reason for being here today is just for that reason: to bring it to the attention of the gentlemen who can do something about it.

And here again, I appreciate your allowing me this opportunity to make a statement.

Chairman **Cranston**. Thank you very, very much. Ben?

By the way, this light system is a green light for you to talk 5 minutes. I think it went off early for some reason, but it goes red when you have had 5 minutes.

STATEMENT OF BEN LITTLEJOHN, VETERAN AND RESIDENT OF COMMUNITY FOR CREATIVE NONVIOLENCE SHELTER, WASHINGTON, DC

Mr. **Littlejohn**. I am glad to be here. I thank you for having me here today. My name is Ben Littlejohn, and I am a Vietnam veteran. I have been out now about 13 years.

I have had a rough life. I came out of the service in 1972. I did two tours in Nam; I went back twice. I don't know why they wanted me to go back the second time; they must have liked me over there. Anyway, since I have been out of the service, my life has been going up and down, up and down.

As far as jobs are concerned, it is very hard for me to hold down a job.

Chairman **Cranston**. Why is that?

Mr. **Littlejohn**. It is because I suffered a back injury while in advanced training, and it didn't bother me right then while I was in the military. After I got out, it got to the point where I could not do any strenuous work. My mother took me in Montgomery—they live in Alabama—and I couldn't even walk; and when I got to the VA hospital, they wanted to give me Tylenol for my back. I mean, I was literally crawling into the doorway to go into the hospital.

So, you know, then I tried to get some kind of compensation for it, and they told me they couldn't find my records. They lost my medical records over in Nam, so there was no record of my having that injury as I went through the service. So, I couldn't get compensation for that.

And then, I started to work, and my back started bothering me because of the kind of work I do—I do construction work, and that calls for a lot of physical work. I couldn't work, and I ended up back here in Washington in 1981. I started working with CCNV, the Community for Creative Nonviolence since they opened up the shelter; it has been about 3 years now.

And I have been doing that work ever since then, you know, just volunteering my time. I can't work anywhere. You know, it is hard for me to find a job. You know, if you don't have many skills, especially if you are working in Washington, and you have to have real good skills, especially if you want office work or something like that. And I don't know anything about that.

All I know is working with my hands. And I have been in the shelter. I have been homeless ever since way before I even got in the military. I had a rough childhood life, so you know, it has followed me all the way through; but I am making the best of it.

I am still having some problems, you know, readjusting to what has happened to me in the years; but I am trying to deal with it and hope to God that He will keep on giving me the strength to keep on doing what I have been doing and dealing with it.

Chairman CRANSTON. Thank you very, very much. Let me just put this question to whoever chooses to answer it.

From what you have seen, how many of the homeless people that you have met are in your estimate veterans? What percentage of them are veterans?

Mr. MOSES. At CCNV, it is certainly over 60 percent, not necessarily Vietnam era veterans, but——

Chairman CRANSTON. 50 percent?

Mr. MOSES. 60, but veterans in general.

Chairman CRANSTON. Is that men, or men and women?

Mr. MOSES. That is men, as far as I know.

Chairman CRANSTON. Do the others generally agree with that estimate?

Mr. LITTLEJOHN. There are quite a few there.

Mr. KELLAR. Yes.

Chairman CRANSTON. How many do you think are Vietnam veterans?

Mr. MOSES. Of that 60 percent?

Chairman CRANSTON. Yes.

Mr. MOSES. Easily 40 percent of that.

Chairman CRANSTON. Do you both agree generally to that?

Mr. LITTLEJOHN. Yes, sir.

Mr. KELLAR. Yes, sir.

Chairman CRANSTON. How many do you think are combat veterans from Vietnam or any war?

Mr. MOSES. The vast majority of that, I would say.

Chairman CRANSTON. A vast majority?

Mr. MOSES. Of that 40 percent, yes.

Chairman CRANSTON. You both agree it is a vast majority?

Mr. LITTLEJOHN. Yes.

Mr. KELLAR. Yes.

Chairman CRANSTON. Are you aware of any information being provided from or about the VA, either in person or through literature, at the shelter where you are living or at any other shelter? Does the VA get material there telling you what help you might get from the VA?

Mr. KELLAR. Basically, about all they do have is a legal service that comes in once or twice a week to counsel you on your benefits.

Chairman CRANSTON. From the VA? And you are told that this person is coming to talk to you?

Mr. LITTLEJOHN. Excuse me. They do have a Veterans' representative who comes in on Wednesdays. He is there and he speaks to any veteran. Any of the staff workers will go around and they will find a vet who would like to speak to a Veterans' representative when he comes in. He only comes in once a week, though.

Chairman CRANSTON. Are any of you receiving either VA compensation or pension benefits? Two of you stated that you were injured in the service. Are you getting any compensation?

Mr. LITTLEJOHN. I don't see anything.

Mr. MOSES. No.

Chairman CRANSTON. Well, you were injured on the job, so that might be different, but, Leroy, why are you not getting any compensation?

Mr. **Kellar**. I was at one time, Senator, but they discontinued it. I have been trying to fight the case ever since. I have never received——

Chairman **Cranston**. Why was it discontinued?

Mr. **Kellar**. My case was not warranted; that is the wording they gave me.

Chairman **Cranston**. What about you, Ben?

Mr. **Littlejohn**. I got frustrated with going through the rigermarole of getting turned around every time I go to have my benefits taken care of. I just gave up. Just like all Vietnam veterans, they give up because you get the run-around. So, why should you keep getting the run around? Just give up. Don't worry about it. Just accept what has happened to you. That is all.

Chairman **Cranston**. You have never managed to get any compensation?

Mr. **Littlejohn**. None at all, sir.

Chairman **Cranston**. Jesse, what about you?

Mr. **Moses**. Yes, I was injured in Vietnam.

Chairman **Cranston**. You were?

Mr. **Moses**. Yes, but my problem was similar to theirs; and that was that after I was out of the military and went to VA to file a claim, they could find no records of my having ever been in Vietnam. So, I just basically left it alone. I didn't even bother with it any more.

Chairman **Cranston**. Does your homeless situation have anything to do with the difficulties in getting compensation?

Mr. **Littlejohn**. I doubt it. It may and it may not. It all depends on the vet, you know, what their problems may be.

Chairman **Cranston**. You don't attribute your problems in getting benefits to the fact that you are homeless then?

Mr. **Littlejohn**. Psychologically, probably it might have something to do with it.

Chairman **Cranston**. Jesse, is it still the case that there is no record of your having been in Vietnam?

Mr. **Moses**. What I did, I made copies of the post operative reports that were done on me at Walter Reed and at Fort Belvoir. As a matter of fact, I had three operations as a result of the injury, which I have with me.

Chairman **Cranston**. As a result of your military injury?

Mr. **Moses**. Yes, as a result of my military injury.

Chairman **Cranston**. Where was that injury sustained, in Vietnam?

Mr. **Moses**. Yes, in Nam, in Cam Ranh Bay.

Chairman **Cranston**. Then why aren't there records?

Mr. **Moses**. I have no idea.

Chairman **Cranston**. Perhaps we can help in that regard. I don't know whether we can or not, but we will certainly see if we can.

Could I ask Tom Harvey, the Deputy Administrator, to look into what has happened to Jesse's records?

Mr. **Harvey**. Certainly, Senator, we will be happy to do that.

Chairman **Cranston**. I would appreciate it.

Have any of you had experiences at Vet Centers?

Mr. **Kellar**. Yes, I have, Senator.

Chairman **Cranston**. Was it helpful?

Mr. KELLAR. To some extent, yes, sir, it was; but for the most part, the Vet Center that I was attending in Lexington, Kentucky, they had a tendency to give you a hard time about things, too, as far as getting things done with the VA.

I had to go through a lot of red tape and run around.

Chairman CRANSTON. Have others of you been to Vet Centers?

Mr. LITTLEJOHN. I have been to a Vet Center in——

Chairman CRANSTON. What was your experience there?

Mr. LITTLEJOHN. Well, I went there to get jobs, to see about jobs and programs, and got the run around again.

Chairman CRANSTON. Did you try to get a job in the Vet Center?

Mr. LITTLEJOHN. Through the Vet Center. I went on jobs; you know, they sent you out on jobs, and you go to the job and there is no guarantee you are going to get hired or not. So, you just waste your time just going for a job.

Chairman CRANSTON. Jesse, did you visit a Vet Center?

Mr. MOSES. Yes.

Chairman CRANSTON. What was your experience?

Mr. MOSES. My reason for going there was different. I never really had a problem getting a job. It was more or less to just sit in on the rap sessions that they held, you know, to swap stories and some of the difficulties that we might have in common that we were all going through. That was about the extent of it.

Chairman CRANSTON. Have any of you lived at other shelters, other than the one you are living in now?

Mr. KELLAR. Sure.

Mr. LITTLEJOHN. Yes, sir.

Mr. MOSES. No, sir.

Chairman CRANSTON. You have all been in other ones? Oh, you have not?

Mr. MOSES. No.

Chairman CRANSTON. But Leroy and Ben have been. In whatever community you are, is there always a shelter that you can get into? Or are there less beds in the shelter than there are people that would like them, in your experience?

Mr. KELLAR. Generally, about every area I have been in there are some type of shelters, whether it be the church missions or the city type.

Chairman CRANSTON. Have you always been able to get in one?

Mr. KELLAR. Not always. No, sir.

Chairman CRANSTON. What is your experience, Jesse?

Mr. MOSES. The only one I can speak on is CCNV, and it is always open. I think it has a 500 or 600 bed capacity, and on the average they are running about 800 to 900 people per night. So, that entails the corridors being filled, the walkways being filled.

Chairman CRANSTON. Let me ask two more questions.

Are you receiving or have you received any other benefits such as health care from the VA?

Mr. KELLAR. Just aspirins for pain. That is about it.

Mr. MOSES. No.

Mr. LITTLEJOHN. Tylenol.

Chairman CRANSTON. What about you, Ben? Anything else? Or Jesse?

Mr. MOSES. No, after my experience, I just left it alone.

Chairman Cranston. Do you think the VA shows the same level of attention to you that it shows to people who are not homeless?

Mr. Moses. Personally, I don't see how it has any bearing one way or the other because VA has no way of knowing whether you are homeless or not, simply that you are a veteran. That should be the only concern—not where you live.

My experiences have been that it did not make any difference.

Chairman Cranston. The problem of not having a desk or a phone number where you can easily be reached—does that make it more difficult?

Mr. Moses. We do have an address. We do have a phone number.

Chairman Cranston. At the shelter?

Mr. Moses. Yes.

Chairman Cranston. Have any of you ever applied for Veterans' Job Training Act positions?

Mr. Kellar. Yes, sir. I have.

Chairman Cranston. Where?

Mr. Kellar. Out in Lexington, Kentucky.

Chairman Cranston. What happened?

Mr. Kellar. I failed. I failed rehabilitation attempts. I have been to work therapy out of the hospitals, and I haven't been able to cope with the stresses of every day work.

Chairman Cranston. Have you, Ben or Jesse, ever applied for that kind of a job?

Mr. Moses. No, I never have.

Mr. Littlejohn. No.

Chairman Cranston. Unfortunately, funds have run out on that program, but we are going to try to reopen it. And if we manage to—and I think we may well do so—I hope you will apply through the VA for such a position. If you do want to do that, if we get the program going again, let us know and we will try to help see that you get fair consideration.

The Assistant Secretary of Labor for Veterans' Employment and Training will testify next, and I am sure he would be glad to try to have the D.C. Job Service assist each of you with employment, if you wish.

I would like to ask Don Shasteen, who is present, could you make sure that they each know where to seek that assistance?

Mr. Shasteen. Yes, sir, I certainly will.

Chairman Cranston. Fine. Thank you very much. We appreciate your being here. We will see if we can be of help.

I now do want to call Don Shasteen, Assistant Secretary of Labor for Veterans' Employment and Training in the Department of Labor as our next witness. I thank the three of you very much for coming.

Thank you very much for being here.

STATEMENT OF HON. DONALD E. SHASTEEN, ASSISTANT SECRETARY OF LABOR FOR VETERANS' EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY BILL PRINCE, DEPUTY ASSISTANT SECRETARY OF LABOR; AND DR. DANIEL R. CLOUTIER, CONSULTANT TO U.S. DEPARTMENT OF LABOR

Mr. SHASTEEN. Yes, Mr. Chairman. It is a pleasure and, once again, a privilege to meet with you in this committee to discuss the kinds of problems that you have just heard.

I am not going to read a statement. We have submitted material in writing, including some answers to questions.

[The prepared statement of Mr. Shasteen appears on p. 141.]

[The questions and responses appear on p. 415.]

Mr. SHASTEEN. I would just like to say, first of all, that it is difficult to follow a panel like you just had. That is the real world, the world of the homeless.

We have been addressing that problem in the Department of Labor, starting last spring, when I commissioned a study to try to get a handle on the extent of the problem as far as veterans were concerned. We have had very excellent cooperation from both the Department of Health and Human Services and from the Veterans' Administration in setting up small working groups in 10 cities.

Washington does not happen to be one of those 10, but we now have the program operating in three cities—in Boston, Denver, and New Orleans—and by the end of March we hope to have it going in all 10 cities that we have targeted for pilot purposes. It is not a program that involves a lot of money, but it is a program based on the concept that cadres of veterans who have been on the streets—who have been homeless—make the best outreach personnel to go back on the streets and help bring the veterans who are there back into the system where they can get the services that they need and the services to which they are entitled.

We have as the end goal in each instance a job, which we feel is very important. Many of these persons are not job-ready, and so we are emphasizing getting them into the facilities, into the programs, into the service areas that they need in order to become job-ready and then help them get a job.

Again, it is a pilot effort. It is not designed to reach every homeless veteran because we don't have that kind of funding; but it is an effort, Mr. Chairman, to identify more clearly the problems and how best we can address them.

We need these people in the work force. As we enter this era of increased competitiveness, we are going to need every American who can work in the work force, and we are reaching out, bearing in mind that the thing that is really distressing when you look into this problem, when you think that every night, every day, every minute—right this minute—there are at least 100,000 veterans on the streets.

Chairman CRANSTON. How do you arrive at that figure?

Mr. SHASTEEN. We have an individual who has done the survey work for us, Dr. Ray Cloutier, who has examined all of the studies that have been made in various cities, ranging from Los Angeles to

Boston to Washington to Baltimore, who has come up with some thumbnail estimates.

We know we put figures as high as 50 percent in cities such as you mentioned, Los Angeles; I guess 60 percent in Nashville.

Chairman **CRANSTON**. 50 percent veterans?

Mr. **SHASTEEN**. Yes, sir.

Chairman **CRANSTON**. Is that figure accurate in Nashville, more or less, 60 percent?

Mr. **SHASTEEN**. I think it ranges from—I would say the average is somewhere in the neighborhood of 35 to 40 percent, based on what we know.

Chairman **CRANSTON**. So, your estimate would be that there are somewhere between 200,000 and 300,000 homeless people all together?

Mr. **SHASTEEN**. That would be at any one given time, over the period of a year's time; some advocate groups suggest that somewhere in the neighborhood of two million people are homeless. It is possible that this figure can be analyzed from the HUD report.

Chairman **CRANSTON**. How many at any one time?

Mr. **SHASTEEN**. At any one time? I would ask Dr. Cloutier to provide that figure for the record.

Chairman **CRANSTON**. I would appreciate that.

Mr. **SHASTEEN**. But I believe it is in the neighborhood of 700,000 to 800,000 at any one time.

[Subsequently, the Department of Labor furnished the following information:]

The Department of Housing and Urban Development (HUD) estimated in 1984 that there were 250,000 to 350,000 homeless people in the United States on any given night. Some advocate groups maintained that close to 2 million people are homeless in the United States. Turnover rates suggest that this figure may be valid for homelessness in a given year.

Data from various sources substantiate that 1 in 3 homeless people is a veteran. This means that between 85,000 and 115,000 people who were homeless on any given night in 1984 were veterans and that about 700,000 veterans were homeless during the course of the year in 1984.

Neither of those numbers reflect the reported increases of homeless people in 1985 and 1986. A very modest estimate of a 10 percent increase in numbers of homeless per year would indicate that there are currently between 100,000 and 135,000 veterans who are homeless on any given night and over 800,000 veterans who are homeless during the year.

Chairman **CRANSTON**. If it is that high, then the number of veterans would be at least 200,000 to 300,000.

Mr. **SHASTEEN**. It might be. Let me ask Ray. Ray is in the audience here. Dr. Ray Cloutier, could you clarify that?

Dr. **CLOUTIER**. Sure.

Mr. **SHASTEEN**. My mathematics are not very good.

Chairman **CRANSTON**. Would you please state your name and title for the record?

Dr. **CLOUTIER**. My name is Daniel R. Cloutier. I am a consultant to the Department of Labor on this program for homeless veterans. I have gone over a number of studies—there are no definitive studies—but in looking at all of the studies, I feel comfortable with the fact that about 1 in 3 of the men who are out on the streets are veterans.

Now, it varies from city to city. A city like Denver, for example, has about 60 percent for special reasons, such as the fact that many of them—it is a high employment area—go there to find jobs. Another reason is that a lot of them go there from Detroit and Chicago and so on, on the way south in the winter.

So, there are some cities that have a high proportion of veterans and others have a smaller proportion. There is a Harvard study, actually by the National Bureau of Economic Research, that tends to verify the figure roughly that the HUD report found about people who are homeless on any given night. That figure probably is about 300,000 to 350,000, which would mean that 1 out of 3 men are veterans, about 100,000 veterans are homeless on any given night.

The report, however, does not state the 2 million figure, but the report does show that there is a large turnover of veterans. A large turnover of the people who are homeless results in about 20 to 30 percent who may be homeless in any given year or on any given night—who would be homeless for only 2 to 3 months.

So, it is just a matter of mathematics to get a figure of about 2 million that are homeless in any given year, about a third of whom would be veterans.

Chairman **Cranston**. How many people do you believe there are who are permanently homeless, who have been homeless, say, for a year?

Dr. **Cloutier**. The figures seem to indicate that about 40 percent or so—40 to 50 percent—of the homeless on a given night are homeless for a year or longer, which you could call the hardcore homeless.

Chairman **Cranston**. 40 percent of what?

Dr. **Cloutier**. 40 percent of the 350,000, or 400,000, whatever it is. They are the hardcore homeless; by definition you could define it that. They are the ones that have the greatest debilities—the ones that have the greatest problem with alcohol and drug abuse, the greatest problem with mental illness, and the greatest number of physical problems. The number who are only there for a month or 2 months are prime targets to try to hustle back into the work system as soon as possible, before they run into the disabilities due to being on the streets a long time.

That quick turnaround is one of the targets of the cadre that we have developed to try to get them back into the system. If you have a couple of cadre people in the city who are in the shelters and with the soup kitchens most of the time during the week, they not only spot those who have problems with alcohol and drugs or with mental illness, but they will also spot the new faces that come in and get them to take advantage of labor training programs and so on.

Chairman **Cranston**. Thank you very much, Dr. Cloutier.

Dr. **Cloutier**. You are welcome, sir.

Chairman **Cranston**. Don, you said we don't have the capacity to deal with the homeless plight of all veterans. What obligation do we have to veterans who are homeless?

Mr. **Shasteen**. Mr. Chairman, I would confine my remarks there to our system, which is the system operated through the employment service to endeavor to help them get jobs.

And we have an obligation to all veterans in that system, primarily for disabled and Vietnam era veterans. We are training our disabled veterans outreach program specialists in a special program at the University of Colorado in Denver on how best to access all of the services that are available for any veteran who needs services in order to become job-ready and then to help those veterans get jobs.

So, we utilize in our efforts to help veterans who are out of work, including homeless veterans—any homeless veterans we find—we utilize all of the services that are available through the Veterans' Administration, through Health and Human Services, through the community health centers that are operated largely with funding from the Public Health Service, also with other community resources that are available—local resources that are provided by either profit or nonprofit agencies.

We are training our people to provide whatever services are needed by any veteran who is out of work, to make that veteran job-ready and then help him or her get into a job.

Chairman CRANSTON. You have indicated that the proposed fiscal year 1988 budget reduction in the local veterans' employment representatives program is based upon a demonstrated lack of need of veterans for the job-related services provided to unemployed veterans through this program. I would appreciate it if you would explain the basis for your determination that there is a demonstrated lack of need for such services.

Mr. SHASTEEN. Yes, sir. The local veterans employment representatives, Mr. Chairman, are supervisors of the delivery of services to veterans. They are not the firstline deliverers of those services. It is the disabled veterans program specialists who are the actual deliverers of the direct services that we fund.

The local veterans employment representatives simply supervise delivery of those services and make certain that the entire staff of each local office is involved in delivering those services. The persons that we fund—the local veterans employment representatives—and the DVOPs actually account for only about 40 percent of the veterans placed in jobs. In fact, the last full program year for which we have data, 41 percent of all veterans placed in jobs were placed by those persons. The other 59 percent were placed by other employees of the job service.

So, that mid-level supervisor, if you will, if there is a documented performance by a local office that shows that a mid-level supervisor is not needed, the manager of that office sees that those services are delivered.

Now, we don't intend to pull any LVER out of a local office. The law states that every local office must have a local veterans employment representative. What we——

Chairman CRANSTON. Are you suggesting that the LVERs are management officials rather than service persons?

Mr. SHASTEEN. Their primary purpose is management. Yes, sir. They are the supervisors of the delivery of services.

Chairman CRANSTON. Is there a demonstrated lack of need as you see it among disabled, minority, and recently discharged veterans for the services of the LVERs?

Mr. SHASTEEN. I would say that for the disabled veterans and the recently separated veterans, a demonstrated lack of need in some areas, there would be, Senator, depending on the State and the performance level of the local offices in that State.

Chairman **Cranston**. But not generally?

Mr. **Shasteen**. But not generally.

Chairman **Cranston**. Instead of reducing LVERs by 195 staff years, couldn't you use them to reach homeless veterans?

Mr. **Shasteen**. They could be used for that purpose, but the DVOPs, whom we are paying for that purpose—we have 1,894 DVOP positions; with the overhead positions, we would be funding a total of 2,056 positions in the DVOP program—those are the outreach persons. They are the ones who go out of the office and provide the kinds of services that the homeless veterans need.

The local veterans employment representatives stay in the office and supervise delivery of services.

Chairman **Cranston**. In your written testimony on page 5, you speak of the reduction of 195 LVERs, and then you go on to say in your prepared testimony that this will be accomplished by reducing positions from a full-time to a part-time basis in estimated 450 local offices and that the actual number of positions affected will depend on the actual position costs for fiscal year 1988. Since the number of positions affected is based on actual position costs for fiscal year 1988, are you not saying that this is purely a reduction in dollars available to the LVER program?

Mr. **Shasteen**. It is a reduction in dollars, but we have projected figures, Mr. Chairman, for the average cost per position in both the DVOP and the LVER program. The way the system works, as I am sure you know, is that we are given a mark for our budget; and utilizing the mark that we are given, we fund the DVOP program to the full amount required by the law, which is one position for each 5,300 Vietnam era and disabled veterans.

Chairman **Cranston**. We are not talking about DVOPs. We are talking about LVERs.

Mr. **Shasteen**. Then, the balance of the funding in our budget is for the LVER program. That funding then is allocated to the States on a formula. If we do not have sufficient funds to meet the full amount of the formula, then we allocate on a percentage basis; and the Secretary then waives the need for full-time LVER services in certain offices based on the performance of offices as determined by our people in the field working with the State and local employment service people.

Chairman **Cranston**. What you are saying, in effect, is that you got a budget cut from OMB; so there is a reduction in the number of LVERs.

Mr. **Shasteen**. Mr. Chairman, we veterans are patriotic. We are doing our best to help the Congress deal with the problem of the deficit. When we do not have enough funding for the full formula in the program—and the LVER formula is provided by regulation, not by law—then we are able to absorb cuts in the LVER program because it involves supervision of the delivery of services and not the actual delivery of those services.

Chairman **Cranston**. That was a roundabout way of saying yes.

Mr. **Shasteen**. When Sears and Roebuck has to make budget cuts, they do it in the mid-level management area. We are doing the same thing.

Chairman CRANSTON. Vets Program Letter No. 6-86 requires that administrators at local job service offices assign enough disabled veteran outreach program specialists—the DVOPs staff—and LVERs to "establish contact" with veterans in job training programs under VJTA. The requirements under the law go beyond establishing contact in that at least monthly contact is to be maintained with the veteran and, "for purposes of this program", the Secretary of Labor is required to provide for a program of counseling services designed to resolve difficulties that may be encountered by veterans under that training and is required to advise all veterans and employers participating under VJTA of the availability of such services and other related counseling services and assistance, and encourage them to request such services and assistance when that is appropriate.

What guidance have you provided to ensure that these specific mandates are indeed carried out?

Mr. SHASTEEN. Bill, do you want to take that question? Mr. Chairman, I neglected to introduce my deputy, Mr. Bill Prince, who has been kind enough to join me today and share in the answering of questions.

Mr. PRINCE. Mr. Chairman, thank you for inviting us to be here. In response to your concern regarding the veterans program letter, we have a system in place with our existing field staff which requires them to report periodically to the national office through significant activity reports. These reports indicate that DVOPs do communicate periodically with the employers and the veterans who are participating under the Veterans Job Training Act. Also we have been analyzing that program in an attempt to take corrective action on those veterans who do not complete the program for some reason, we are trying to determine why and what corrective action the DVOPs and our field staff can take to ensure that they are picked up by the system and be placed into other jobs or training opportunities.

Chairman CRANSTON. In what ways have you ensured that the State Directors of Veterans Employment and Training, as part of their efforts at the local level, provide with the contact and counseling services and assistance required under VJTA?

Mr. SHASTEEN. Mr. Chairman, our State Directors and Assistant State Directors are required to monitor the activities of local offices by making periodic visits to those offices, doing formal evaluations, filing reports with the State as to the results of those evaluations, and then returning to the offices to determine whether the corrections that are necessary have been made.

It is through that system that we are endeavoring to make this case management system work.

Chairman CRANSTON. Have deficiencies been found; and if so, what steps have been taken to correct them?

Mr. SHASTEEN. We find deficiencies in many offices in the regular visits that are made. I would have to go to the records to determine the number of deficiencies that might relate to this.

Chairman CRANSTON. Could you give us that for the record?

Mr. SHASTEEN. Yes, sir.

Chairman **Cranston**. What types of counseling services are generally available to veterans participating in job training programs under VJTA?

Mr. **Shasteen**. The disabled veteran outreach specialists are being trained in our University of Colorado program and have been trained through the training conferences held State by State over a period of 2 or 3 years now to provide that kind of counseling.

It is not professional, psychological counseling, but it is counseling by disabled veterans of other veterans, many of whom are disabled, who have similar problems: some of them in the PTS area, some of them with physical disabilities, some of them with just difficulty in getting along with their supervisors.

The DVOPs are the ones who provide most of that counseling.

Chairman **Cranston**. Would you give us for the record how many referrals and what types of referrals were made in the past year under VJTA?

Mr. **Shasteen**. We will endeavor to do that.

[Subsequently, the Department of Labor furnished the information which appears on p. 147.]

Chairman **Cranston**. To what extent do you document the counseling services that are provided through your case manager approach?

Mr. **Shasteen**. Mr. Chairman, we don't have authority to require official reporting of counseling in that one program. We do require across-the-board program counseling. In other words, reporting to us by the employment service in every State the number of veterans counseled under all types of programs, whether it be those under the Veterans Job Training Program or under the targeted Jobs Tax Credit Program or any of the Job Training Partnership Act Programs.

So, we don't have a delineation by program. We simply have the total number counseled.

Chairman **Cranston**. Are you saying that you can't require the States to report on the VJTA situation?

Mr. **Shasteen**. We can require that, but it is a long process. It is a longer process than we have had time to really explore. This change came in the program starting in January of last year for us. It is a process that has to go through the Office of Management and Budget, and in that manner is laid on each State as a reporting requirement.

Chairman **Cranston**. Do you need new legislative authority; or, if we get the program going again, will you be able to give counseling services in connection with the case manager approach?

Mr. **Shasteen**. We would probably need some kind of legislative authority to require it.

Chairman **Cranston**. You would need authority to document it?

Mr. **Shasteen**. Yes, sir. We would need authority to require it, to really document it.

Chairman **Cranston**. Would you submit for the record, please, copies of all printed materials distributed to veterans and employers to inform them of the counseling services and assistance available through the VJTA program?

Mr. **Shasteen**. Yes, sir. We will.

[Subsequently, the Department of Labor furnished the following information:]

A pamphlet entitled "The Job Connection", prepared by the Employer's National Job Service Committee is used to inform both employers and veterans about the various programs available to help veterans. The Veterans' Job Training Act (VJTA) program is described on the first two folds of the pamphlet including a reference to the availability of counseling.

[The pamphlet appears on p. 151.]

In addition, we issued Veterans' Program Letter No. 6-86 on January 30, 1986 which described the changes in the VJTA program. Specifically, page 2 of the directive points out that veterans and employers under VJTA should be informed of the counseling services and related assistance available to them. Further, under the Action Required section of page 4 of the directive, both the State Employment Security Agencies (SESAs) and our State Directors for Veterans' Employment and Training Service (SDVETS) are instructed to follow the instructions of the directive.

Chairman CRANSTON. Based on the information available to you, what types of on-the-job difficulties are most frequently reported by participating veterans; and what types of counseling services are generally made available as a result?

Mr. SHASTEEN. There is a wide range of problems. Some of them, as I mentioned before, involve just the difficulty of getting along with a supervisor, the difficulty of taking orders, if you will, from someone who maybe is not very diplomatic in delivering those orders.

What we try to do is encourage the veteran who has any kind of difficulty like that to get in touch with our DVOP or someone else in the local job service office so that he or she can get the counseling. The employers are told the same thing. We have a pilot program going now in Everett, Washington, where that kind of service for post-traumatic stress veterans is available through the community college right in downtown Everett. Veterans who are working can go during the noon hour and get counseling from a psychologist who is a combat veteran of Vietnam himself, instead of having to go, say, to a Veterans' Administration hospital 40 or 50 miles away to get that counseling.

So, there is a wide range. It might be just career counseling or it could be post-traumatic stress counseling; and in some instances even psychological counseling from someone who has more experience at it than the DVOP.

Chairman CRANSTON. What recommendations can you make with respect to improving the actual completion rate of trainees who participate in the program?

Mr. SHASTEEN. Mr. Chairman, that is awfully difficult to do. The economy in local areas has a lot to do with whether or not a veteran can get a job. The main impetus that this program has provided is it tips the balance. In those areas where the economy is starting to improve, it tips the balance and causes the employer to hire someone sooner than he or she otherwise would do.

When that happens, we can get a veteran into a job with that employer more quickly than a nonveteran because of this program.

Chairman CRANSTON. Do the employers need more incentive to try to see to it that people complete their program?

Mr. SHASTEEN. That is hard to say. I think the figures that we have seen from the Centaur report indicate that about 25 percent of the persons who drop out do so just because of dissatisfaction with the job. I doubt that that is any more the employer than the employee who is responsible for that. Some of them drop out for health reasons.

I don't think really that any more incentive is needed for the employer. I think perhaps more followup is needed, and we are looking at that possibility now. We are considering in our agency a project—a proposal—that has been submitted to us to follow up with persons who have dropped out of the Veterans' Job Training Program to give them one more chance to see if there is some way that we can extend a helping hand once more to that veteran and find out what the real problem was and address it.

Chairman CRANSTON. Have State Directors of Veterans' Employment and Training offered any useful suggestions as to how to improve the VJTA program?

Mr. SHASTEEN. I am going to turn to my deputy for that. Bill?

Mr. PRINCE. Yes, Mr. Chairman, we have quarterly regional director conferences where we discuss issues such as the Veterans' Job Training Act and how we can better do our job in assisting the VA jointly in carrying out this program. This was the very avenue which brought us to look at proposals from individuals who wanted to target on the VJTA dropouts. So, the dialogue is continuing.

Unfortunately, one of the problems that I see personally in looking at the program was that it was in fact developed as an emergency program; and therefore, in getting that program up and running, we did not build into it as strong a reporting system as we probably would have done, had we had the proper amount of time in planning.

Therefore, we are adjusting at this time in terms of looking at the dropouts and what we can do to react to that.

Chairman CRANSTON. Don, you state that the Veterans' Job Training Act "is scheduled to end in fiscal year 1988 because of the significant decline in veterans unemployment."

I would like to draw to your attention, and to Tom Turnage's attention also, a more immediate issue with respect to VJTA, and that issue is that the Secretary of the Treasury has determined that approximately $1.6 million of the remaining fiscal year 1984 appropriation to VJTA may not be used after the end of fiscal uear 1986 to carry out the Veterans' Job Training Act. I understand that that $1.6 million could actually grow to about $8 million by the end of fiscal year 1987 as the result of funds that would be deobligated due to veterans terminating from VJTA training.

It seems to me that under the provision in section 16 of Public Law 99-238, which states that VJTA funds shall remain available until September 30, 1988, that this money should be available to be re-obligated.

To this end, I wrote a letter to Secretary of the Treasury Baker on January 15, raising that issue. As Secretary Baker has not responded to my letter, while this $8 million may seem a small sum during an era of the trillion dollar Federal budget, I would note that at an average cost of $3,000 per veteran trainee this $8 million could provide job training to almost 3,000 long-term unemployed veterans.

Does the Department of Labor support my position with respect to re-obligating the fiscal year 1984 funds so that it can be used during the current fiscal year?

Mr. SHASTEEN. Yes, sir, Mr. Chairman, we do. We have looked into it. The funding is with the Veterans' Administration and not with us; however, our solicitor's office has contacted the General Counsel of the VA, Mr. Don Ivers, and has assured him of our support. And he, in turn, has likewise contacted the Secretary of the Treasury. He has provided us with a copy of that letter from General Turnage; but I believe, since it is in Tom Turnage's realm, I will leave it to him to provide further answer.

Chairman CRANSTON. Are you going to personally appeal to the Secretary of the Treasury to ask him to respond and to re-obligate?

Mr. SHASTEEN. I will discuss the matter with the Secretary of Labor, Mr. Chairman. Since it is in the VA's budget, we were working through the VA to make that contact.

Chairman CRANSTON. All right.

Tom, we will be to you in about 5 minutes, but could I ask you to come to the table, just so I can go over these questions with you, just briefly?

Mr. TURNAGE. Thank you, Mr. Chairman.

Chairman CRANSTON. Does the VA support my position with respect to re-obligating those funds?

Mr. TURNAGE. Yes, sir, we have. And I can say first hand that we have written to the Secretary of the Treasury to get a reading on the policy with regard to use of former unobligated funds.

Chairman CRANSTON. Would you give us a copy of that letter? And I would appreciate your efforts to get a response to your letter and to my letter.

Mr. TURNAGE. I would be glad to provide the letter, sir, but we have already started action to find out where it stands and why we have not heard.

Chairman CRANSTON. Good. That is all I wanted to ask you right now. We will back to you shortly, but I want to ask you, Don, a few more questions.

[Subsequently, the Veterans' Administration furnished the letter which appears on p. 157.]

Mr. TURNAGE. Am I excused for the day, sir?

Chairman CRANSTON. No. [Laughter.]

Emphatically not.

As you know, Don, the Labor Department's fiscal year 1988 budget poses a significant initiative to assist our Nation's increasing numbers of dislocated workers, through a program called the Worker Adjustment Assistance Program.

The administration is proposing nearly a billion dollars for this program, which will be funded in part by a consolidation of funds per title III of the Job Training Partnership Act and the Trade Adjustment Assistance Program.

Since the Labor Department's Bureau of Labor Statistics indicates that nearly 26 percent of all dislocated workers are veterans, our Nation's veterans organizations have expressed to Secretary of Labor Brock their strong view that veterans should be a major target group in the Dislocated Workers Program.

Do you agree with the opinion of the veterans service organizations with respect to veterans being a major target?

Mr. SHASTEEN. Yes, indeed, Mr. Chairman. With 26 percent of the displaced workers veterans, there should be in that program a great benefit for the veterans who are unemployed. And the terminology, the definition, of "displaced worker" is very broad in the program, so that it could be used to reach not only those who are displaced by a plant closing but those who have been long-term unemployed in areas of high unemployment, including—during the process of developing the legislation, I asked the question could it apply, for example, to veterans who are living on Indian reservations, and I was told that it could.

So, it should be very helpful to veterans.

Now, in the legislation itself, I don't know that any single group other than displaced workers will be targeted by name, but it should reach at least 26 percent—at least 26 percent of the persons reached by the program should be veterans.

Chairman CRANSTON. How can the Worker Adjustment Assistance Program best serve the needs of veterans? And have you told Secretary Brock of your views on this?

Mr. SHASTEEN. I think, from our standpoint, the way that it can best reach the veterans is for us to be able to monitor how the program works in the various States, and have some kind of a reporting requirement that would identify back to us how many veterans are served.

I have communicated that to Secretary Brock and others working on the bill. I have been told that, in the regulatory process that would be established for implementing the legislation, that it would be possible to provide such a reporting requirement.

Chairman CRANSTON. And have you indicated those views to Secretary Brock?

Mr. SHASTEEN. Yes, sir, I have.

Chairman CRANSTON. On page 4 of your written testimony, you state that you expect all 10 of the grants to major cities that will be approved by the end of March, for the jobs for homeless veterans programs. Would you submit for the record detailed information describing each of those programs and how they work?

Mr. SHASTEEN. Yes, sir.

[Subsequently, the Department of Labor furnished the information which appears on p. 168.]

Chairman CRANSTON. Would you please keep the committee informed periodically, also, over the next 12 months, of the progress of these programs?

Mr. SHASTEEN. We will be glad to do so.

Chairman CRANSTON. Finally, as far as my questioning goes, in view of your efforts to bring homeless veterans back into the employment mainstream through the Jobs for Homeless Veterans Program, if Congress extends VJTA, would you support amending it to eliminate the 10 out of 15 week unemployment requirement for homeless veterans, so that they can be eligible for job training programs under VJTA without waiting 10 weeks, in the event they are homeless?

Mr. SHASTEEN. Yes, sir.

Chairman CRANSTON. Thank you very much.

I will now go to the other members of the committee for any questions they may have to Secretary Shasteen. I will try to do it in the order in which you showed up.

So, Senator Graham, do you have any questions?

Senator **GRAHAM**. I have no questions at this time, Mr. Chairman.

Chairman **CRANSTON**. Senator DeConcini?

Senator **DECONCINI**. Mr. Chairman, I have no questions at this time, either.

Chairman **CRANSTON**. Senator Rockefeller?

Senator **ROCKEFELLER**. Nor do I, Mr. Chairman.

Chairman **CRANSTON**. Well, thank you very, very much.

Mr. **SHASTEEN**. Thank you, sir.

Chairman **CRANSTON**. We will now hear from the Honorable Thomas K. Turnage, the Administrator of Veterans' Affairs, accompanied by the Honorable Thomas E. Harvey, Deputy Administrator of Veterans' Affairs; Dr. John A. Gronvall, Chief Medical Director; Grady W. Horton, Deputy Chief Benefits Director for Program Management; Arthur S. Hamerschlag, Chief Memorial Affairs Director; and Donald L. Ivers, General Counsel, all of the Veterans' Administration.

Senator **DECONCINI**. Mr. Chairman?

Chairman **CRANSTON**. Yes?

Senator **DECONCINI**. I ask unanimous consent that my statement appear in the record prior to the testimony of the Director.

Chairman Cranston. So ordered.

[The prepared statement of Senator DeConcini appears on p. 134.]

Senator **DECONCINI**. My thanks, Mr. Chairman.

Chairman **CRANSTON**. Thank you.

Senator **ROCKEFELLER**. Mr. Chairman, could I make a comment?

Chairman **CRANSTON**. Certainly.

OPENING STATEMENT OF SENATOR ROCKEFELLER

Senator **ROCKEFELLER**. Thank you, Mr. Chairman. I also ask that my prepared statement appear in the record at the appropriate place.

First of all, I want to commend you, Mr. Chairman, because I don't think people around this building necessarily know how rapidly you have been driving this committee forward, gathering all of the pertinent information on the budget, and so on. We have heard a lot of testimony, from a range of witnesses. I want to commend you for that, because I think you have been—as I knew you would be and as you always have been—very aggressive and effective on all of this.

Chairman **CRANSTON**. Thank you very much.

Senator **ROCKEFELLER**. And I also want to commend, if I might, the VA Administrator Tom Turnage, for reasons having to do with some actions that he has taken affecting West Virginia which are very important to me.

First of all, in the VA's fiscal year 1988 proposed budget, there is $43.4 million set aside for the expansion and renovation of the Huntington VA Medical Center. This is, as the Administrator knows, particularly good news for a facility which is in great need of repair and attention. The Administrator has agreed to help correct the hospital's deficiencies, and I want to express to you publicly that I am very grateful for your decision.

Then, in addition to that, I want to thank you for a very fast response to my request that you reconsider a question rising from a disagreement between the Huntington VA Medical Center and the Park Board of that area over a proposal to construct a secondary access road to the VA hosptial. Your decision to grant the Park Board the $10,000 or so to which it felt entitled is not major news but important to Huntington. When it became an issue, I brought the matter to your attention, you reconsidered your earlier rejection of Huntington's request, and very expeditiously informed me that the funds will be given to the Park Board. That was very appreciated. Ten thousand dollars is not a lot of money these days, but it was a big issue in the City of Huntington. I want to commend you for that and thank you.

[The prepared statement of Senator Rockefeller appears on p. 137.]

Chairman **Cranston**. Jay, thank you very much. I appreciate very much your very generous comments.

Before I yield to Ranking Minority Member Murkowski—and I am delighted that he is present—I would like to say, before you begin your testimony, Tom, that I want to express my personal congratulations to two individuals who have assumed important new duties since the last time they appeared before the committee: The Deputy Administrator, Tom Harvey—we are delighted that you are here in this role——

Mr. **Harvey**. Thank you, Mr. Chairman.

Chairman **Cranston** [continuing]. And the Chief Medical Director, Dr. John Gronvall. We are delighted that you are here.

Dr. **Gronvall**. Thank you, sir.

Chairman **Cranston**. Both are old friends, both are most able public servants, and we are delighted to be able to keep on working with both of you.

I would also like publicly to congratulate you, Tom, and the many other VA officials who worked so very hard to provide, as I had requested, the agency's prepared testimony, as well as answers to most of my prehearing questions, by last Friday with the rest submitted yesterday. I know this took a great deal of effort and coordination, and I want everyone involved to know how very grateful we are for all of these very, very fine efforts. I can't recall a better effort by any executive agency in preparing for a hearing, Tom.

In addition, I want to express my appreciation for your own generally supportive and forthcoming testimony on our legislation, regarding the Vet Center Program and on S. 477 relating to homeless veterans.

I want to note also, since we have many witnesses today, that I must ask each witness to limit his or her oral testimony to 5 minutes so that we will have sufficient time for questions. We will be using lights here. When you see the red light, the 5 minutes are up. I will greatly appreciate everyone's cooperation in observing this limit. Of course, each witness's prepared statement will be printed in full in the record.

We are also going to observe a 10-minute questioning limit for each Senator during each round of questioning, and we are going to try using the lights at that time, also.

Frank, we are delighted that you are here.

OPENING STATEMENT OF SENATOR MURKOWSKI

Senator **MURKOWSKI**. Good afternoon and thank you very much, Mr. Chairman. I certainly echo your comments in your welcoming remarks.

Tom, at the outset, I want to commend you for your strong leadership of the VA this past year. From time to time we have disagreed. I may not agree with every proposal contained in your budget submission, but, given the call from all quarters for deep cuts in Federal spending, this request for $27.6 billion in budget authority, an increase of over $500 million over the current estimate for 1987, is a reflection of your advocacy, and that of your staff, on behalf of our Nation's veterans. I commend you.

We shall hear from representatives of veterans' service organizations, who will speak of the increased need for health-care funding to meet the growing demand for care, and that is most appropriate, for veterans are the reason that the VA exists, and their service organizations contribute enormous resources to the system and its veteran beneficiaries.

As a result of this coordinated effort, the VA health-care system is not only cost-effective, but a model for other Federal agencies that provide assistance. It is through this hearing process that I hope we shall better understand your needs and concerns, in order that we can develop a consensus on an appropriate level of funding for the VA.

I want to highlight very briefly a few of the issues contained in your budget which are of concern to me.

Your budget proposes the elimination of the funding for the health care of veterans in Category C. Just a few years ago, the Congress took a very significant and a very difficult step, in establishing a means test where veterans in Category C would, for the first time, be required to contribute a small amount for their VA medical care. We worked very hard to forge a compromise with veterans and to assure Category C veterans that we were not attempting to close the door on their receipt of such care. It is clear that elimination of the funding ascribed to the treatment of Category C veterans would represent a breach of faith for this category of veterans and could have an adverse effect on the medical care provided to all veterans. For these reasons, I introduced S. Con. Res. 7, expressing our rejection of that proposal. I intend to do everything I can to ensure that fiscal year 1987 funding is maintained for Category C veterans and fiscal year 1988 funding is restored.

Last year the committee rejected any effort to increase the home loan origination fee above 1 percent. I recognize that the Home Loan Program continues to face some serious problems with continued high rates of foreclosures, and funding shortfalls. However, I do not believe that an increase in the origination fee above 1 percent is an appropriate solution at this time. We must continue to look at program reform. I commend you and your associates; you have started that. But I think there is still an awful lot that can be done in the area of reform in the Home Loan Program.

I do not agree with the administration's position that funding for the New GI Bill should be the responsibility of the Department of Defense. This committee has an illustrious record of providing for the readjustment needs of America's veterans. The readjustment and education of veterans is the responsibility of this committee. This committee should also be responsible for authorizing the funding needed to meet that responsibility. I am pleased to join with Chairman Cranston in sponsoring legislation to make the new GI Bill a permanent veterans' education program.

Further, I oppose the concept of indexing COLA's for the Service-Connected Disability Compensation Program. The requirement for annual legislation provides the committee with the opportunity to revise and to improve veterans' benefits programs.

I am pleased that the President has signed into law H.J. Res. 102, which contains an amendment which I offered to allocate $5 million to the Veterans' Administration for the care and treatment of veterans with chronic mental illness, many of whom are homeless. Clearly, more needs to be done, and I intend to recommend that additional funds be provided for this program in fiscal year 1988, and that the domiciliary program also be expanded to help meet the needs of homeless veterans. But throughout our deliberations on this issue, we must bear in mind that the VA, with their network of Federal and State hospitals, nursing homes, and domiciliaries, as well as compensation of pension programs, has been a leader in the care of the less fortunate. It would be difficult to find an institution or agency of the Government which has done more for the homeless or for the prevention of homelessness than the VA, and I commend you and your associates for that.

Last year, as part of Public Law 99-576, we reached a reasonable and thoughful compromise on the gradual transition of Vet Centers from primarily a storefront operation to one integrated into the VA medical centers. GAO will soon issue a report regarding the Vet Center Program, and they make some very positive comments regarding its operation. However, in their briefing to my staff, they also pointed out that at the Vet Centers they visited, an average of only nine veterans were seen each day. Of the nine, there was only one new patient per day, and, in a few cases, the visits were as short as 1 minute. At a time when resource limitations and staffing shortages affect health care for veterans of all wars and conflicts, I think we have to start establishing program priorities so that we can serve as many veterans as possible. I am convinced that some Vet Centers should stay as storefront operations; clearly, others with decreased workloads can begin the transition back into the medical centers where their staffs can be more efficiently utilized in treating both Vietnam vets and others, as their workload permits.

Notwithstanding my concerns, I shall not oppose a further 1-year delay in the transition. However, I would hope that we shall have the information upon which to make a final determination with regard to this program. Tom, I urge that you get the information to us as soon as possible this year.

I am also very concerned with the news reports that the administration is now drafting legislation regarding welfare reform, which, as I understand, would consolidate those programs and place them under State control. The news report indicated that consideration has been given to include veterans' pension and non-service-connected health-care programs in this initiative.

Veterans programs are really a Federal responsibility and not a responsibility of the States. I think you would generally agree with that; although, perhaps you cannot comment on the accuracy of the news reports at this time.

I have written a letter to our President to express my rather emphatic views on this issue, which I have conveyed to you today.

Mr. Chairman, thank you for the opportunity to make my opening statement. I trust that you understand that I will have to leave this hearing to return to the Intelligence Committee hearing on the confirmation of Mr. Gates, if that hearing is still going on. Do you know if the Intelligence Committee hearing has concluded?

Chairman **Cranston**. I don't know.

Senator **Murkowski**. I don't think so.

Chairman **Cranston**. I was unable to get there today, unfortunately.

Senator **Murkowski**. Well, if you will excuse me, I will give it another try. Thank you, Mr. Chairman.

Chairman **Cranston**. Thank you.

Let me ask if the Senators on this side of the table have any opening remarks to make to Tom.

Yes, George?

Senator **Mitchell**. No, Mr. Chairman, I will ask that my statement be submitted in the record.

Chairman **Cranston**. Fine. Thank you.

[The prepared statement of Senator Mitchell appears on p. 139.]

Chairman **Cranston**. We are going to operate now on the 10-minute rule, so I will start off just for 10 minutes.

Tom, the White House-initiated welfare reform proposal includes certain VA—oh, that's right, you haven't testified yet. Forgive me for jumping the gun. [Laughter.]

Chairman **Cranston**. Forgive me. 5 minutes.

Senator **DeConcini**. Are you going to count that time against him?

Chairman **Cranston**. Yes. You lost 30 seconds then.

Senator **Mitchell**. You can tell he's really anxious to hear what you have to say. [Laughter.]

STATEMENT OF THOMAS K. TURNAGE, ADMINISTRATOR OF VETERANS' AFFAIRS, VETERANS' ADMINISTRATION, ACCOMPANIED BY THOMAS E. HARVEY, DEPUTY ADMINISTRATOR OF VETERANS' AFFAIRS; DR. JOHN A. GRONVALL, CHIEF MEDICAL DIRECTOR; R. JOHN VOGEL, CHIEF BENEFITS DIRECTOR; ARTHUR S. HAMERSCHLAG, CHIEF MEMORIAL AFFAIRS DIRECTOR; AND DONALD L. IVERS, GENERAL COUNSEL

Mr. **Turnage**. Mr. Chairman, I am delighted at your recognition of Mr. Harvey and Dr. Gronvall, and I am pleased with your impression of their service. I am equally. They constitute a very eminent and professional team who will enure to the welfare of all of our veterans.

I am joined here also, as you know, by Mr. Vogel from DVB, Mr. Hamerschlag, and Mr. Ivers, the General Counsel of the Veterans' Administration.

I am suggesting to you how very much I appreciate your kind remarks and those of Senator Murkowski, and those of Senator Rockefeller at the outset.

I am grateful for the opportunity to appear before you today to discuss the Veterans' Administration's fiscal year 1988 budget request. As we all know, this is my first budget presentation to your committee, sir, and I have looked forward to the opportunity.

The current budget deficit means that each of us must do our share, and we at the Veterans' Administration are willing to do ours. Even so, in my judgment, the Veterans' Administration has faired exceptionally well, and the requested budget authority of 1988 exceeds any VA proposal to date. I think that warrants emphasis. This is the biggest budget in the history of the Veterans' Administration.

The VA is requesting $27.6 billion to fund health care, compensation, and other programs for our Nation's 27.7 million veterans and their families. Permit me to briefly summarize the budget request, highlighting some of the agency's major accounts. I will then discuss the VA's position on legislative proposals affecting Vet Centers and homeless veterans.

First, benefits. The largest portion of this budget request is for the benefits programs which at $15.4 billion constitutes 57 percent of the total budget. About two-thirds of these funds, or $10.4 billion, will provide compensation payments to 2.2 million veterans and 323,000 survivors. Another $3.8 billion will provide pension payments to 1.2 million recipients.

We are proposing to index compensation benefits to the Consumer Price Index, to ensure timely recognition of consumer price increases.

In the Loan Guaranty Program, we are proposing that the 1-percent funding fee be increased to 2.5 percent. The increase in the funding fee is necessary to obviate the need for an appropriation. The cost of this fee could be financed as part of the average veteran's loan. The increased fee, if financed, would increase the average veteran's payment by less than $10 a month. Enactment of this proposal would not alter this program's primary mission of providing veterans with affordable housing, without requiring a down payment. In fact, we estimate that the VA will guarantee nearly 324,000 loans in 1988.

Now, for medical care. Quality medical care for America's disabled and needy veterans is one of the VA's highest priorities and certainly one of mine; therefore, we are requesting a medical care budget of nearly $10 billion. The funds will provide for the medical care and treatment of 1.4 million inpatients and 20.4 outpatient medical visits. Over 190,300 full-time employees are requested to meet the medical needs of these veterans.

To help alleviate a growing nurse shortage, the Veterans' Administration will reactivate the Health Professionals Scholarship

Program. Funding is requested to support 1- and 2-year awards to nursing and physical therapy students.

The VA medical system is available to all veterans, but we should—by law and by basic human instinct—concentrate our efforts on providing care, first, for service-connected veterans and those least able to pay for their health needs, and that is incorporated in the so-called "means test" passed by the Congress this last year.

This means that some veterans who earn over $25,000 per year and whose illnesses are completely unrelated to military service may be required to use their own resources for obtaining health care in the private sector. However, in locations where resources and space are available, our health care system will furnish care to these veterans. And you have my word that no veteran, no matter what his financial status, will be turned away from a VA facility in an emergency or a dire circumstance.

Now, memorial affairs, we are requesting $47.7 million for that agency, an increase of $3 million over the 1987 level. Total interments are estimated to increase 2.8 percent to $36,000. Resources for the activation of a new national cemetery in Florida are provided, and funding in our construction budget is also included for gravesite development of the northern California cemetery development.

Mr. Chairman, this concludes my remarks regarding the VA's budget proposal, but I believe our budget request reflects a concern for fiscal restraint while enhancing our commitment to meeting the needs of our veterans.

I would like now, at your request, to briefly summarize the VA's position on two legislative proposals—one which would impact the VA's Vet Center Program, and the other which would require the VA to implement certain programs to assist homeless veterans.

In the case of the Vet Centers, for a number of reasons, including the positive changes during the last 7 years the relationship between the Vietnam era veterans and the VA system, we plan to begin relocating some Vet Centers to VA Medical Centers this fiscal year. These Vet Centers will be carefully chosen, based on criteria established by the Department of Medicine and Surgery, and approved by the Administrator.

The primary factor used in determining this criteria will be the best interests of the Vet Center's clientele. Because the relocation process will be meticulous and gradual, we do not oppose legislation such as S. 279, which will postpone the statutory dates mandated in transition of most Vet Centers to VA Medical Centers.

Further, we do not object to section 4(b) of S. 6, which postpones for 1 year the due date of the PTSD report.

Now, finally, for homeless veterans: The plight of the homeless veteran will never be resolved by the Veterans' Administration alone. We realize that we must work with other Federal agencies like HUD, HHS, and the Department of Labor, State governments, community-based organizations, and the Congress to formulate and implement initiatives that will make a difference in alleviating homelessness among veterans.

Mr. Chairman, portions of the legislation you introduced to assist the homeless need to be enacted, including a carefully structured initiative allowing the VA to transfer some of its foreclosed properties for use in housing homeless veterans. And I am proud to say that some other provisions of S. 477 do not need enactment, in my judgement, because the VA is already in the process of implementing them.

My staff and I will be pleased to answer any questions regarding the various VA programs which assist homeless veterans, and we will also be pleased to respond to your questions regarding our budget request.

I would ask, sir, that my full statement be made a matter of record.

[The prepared statement of Mr. Turnage appears on p. 174.]

Chairman Cranston. Thank you very, very much. I appreciate that statement, and I appreciate your brevity, even though it took a little bit longer. Now, to get back to what I started, before I was so rudely interrupted. [Laughter.]

Chairman Cranston. The White House-initiated welfare reform proposal includes certain VA pension and health care benefits within a package of 99 public assistance programs to be given to the States for their administration. I believe that veterans' benefits are earned through service to and sacrifices for our Nation; they are not a gift from the Government but a repayment of a debt that our Nation owes the veterans.

So, a question: Do you believe it is fair, or even appropriate, to include veteran' benefits within a program to overhaul our welfare system by allowing the States to determine or even eliminate veterans' benefits?

Mr. Turnage. I am not at all sure, sir, of where we stand with regard to that, or if in fact that is now the administration's position.

Chairman Cranston. What is your view?

Mr. Turnage. I can suggest to you, however, from my position, that we have pointed out that this is a result of Federal service. And we believe these benefits, then, should be administered by a Federal agency.

Chairman Cranston. Good. Well, we are in full agreement on that point, then.

The motivating force behind the White House proposal appears to be a belief that the current welfare system discourages individuals from working, provides benefits to individuals who really don't deserve or need them, and, overall, is an inefficient, inflexible system which results in excessive and inefficient expenditures. Do you agree that this is characteristic of VA benefits and medical programs? I assume not.

Mr. Turnage. I think the two questions are separate and distinct, sir, and my view about the welfare benefits overall I think belongs within the purview of someone else.

I can suggest to you, however, that I think the benefits that are accrued to veterans as the result of their service are earned benefits, and we view it that way.

Chairman Cranston. And served in a relatively efficient manner.

Mr. Turnage. I think in an excellent manner, sir.

Chairman **Cranston**. Would you agree that, if the States were allowed to change or eliminate certain VA benefits to some veterans, this could very possibly cause great hardship for many veterans, create inequities within the VA benefit system, and have wide-reaching, potentially devastating implications for VA programs in general?

Mr. **Turnage**. Mr. Chairman, I think the question, from my perspective, would have to be more explicit, simply because we are now involved in some State supported programs. For example, in the Veterans Home Program for States, we provide 65 percent of those dollars for the construction. We also provide per diem for the people who are in them. The States, on the other hand, actually then are involved in the administration of that program. We find that to be a reasonable one.

Chairman **Cranston**. The States don't have the power to change those programs.

Mr. **Turnage**. No, sir, they do not.

Chairman **Cranston**. That is the difficulty with this program. I see.

I have a question for DVB: If S. 477 were amended so as to eliminate the properties available for transfer to foreclosed properties already in the VA's inventory that can't be disposed of readily, or to properties that result in a net loss to the agency as the result of maintenance costs, utilities, taxes, and other such expenses, approximately how many houses would the VA have available to be transferred for use as shelters for the homeless?

Mr. **Vogel**. Mr. Chairman, we have some 2,000 properties available for sale which have been in our inventory for 12 months or more. They are spread across the country. If the threshhold was that properties in inventory 12 months or longer were available for sale, and we had used every reasonable marketing effort to sell those homes and, as you point out, incurred expenses in the maintenance and the paying of taxes and repairs, we would be certainly amenable to conveying those properties.

I might point out that of the 2,000 properties over 12 months old, 1,100 of them are in the Houston regional office jurisdictional area. Those properties, many of them in the inner cities, are modestly priced, and we have expended a lot of efforts to convey them, in some areas without success.

Chairman **Cranston**. Would these properties tend to be in geographic locations where they could be appropriately used as shelters?

Mr. **Vogel**. We don't have, except by polling the various and sundry regional offices, the information as to where those properties are. We believe that in some major cities, inner-city properties would not be readily available in the area in which we currently would find homeless people, who are in that area because some services are available to them.

We would be pleased, however, to survey the inventory in especially the larger cities, to determine the nature and types.

Chairman **Cranston**. That would be very helpful. How long would it take to get that done?

Mr. **Vogel**. We ought to be able to do that within a week or so.

Chairman **Cranston**. Would you do that and then advise us?

Mr. **Vogel**. Yes, sir, we certainly will.

Chairman **Cranston**. Thank you.

[Subsequently, the Veterans' Administration provided the following information:]

We polled our regional offices to obtain this information. They were asked to identify the number of properties in inventory which had been listed for sale for 12 or more months, and which were located in an urban area in close proximity to areas where homeless seek or obtain community services (such as shelter and food). They reported a total of 544 properties nationwide which meet these criteria.

Chairman **Cranston**. Alternatively, if the bill were amended to provide that no transfer could be made unless you determined that the transfer would not be to the financial detriment of the Loan Guaranty Revolving Fund—in other words, would be a wash financially—approximately how many foreclosed houses would be available for transfer, and do you think they would be located where they could be used for shelters?

Mr. **Vogel**. I couldn't put a firm figure on it. I should be able to develop that.

Chairman **Cranston**. Would it be less than 2,000?

Mr. **Vogel**. Considerably less than 2,000, sir.

Chairman **Cranston**. Can you give us any ballpark figure? I know you can't be pinned down to a precise figure.

Mr. **Vogel**. I would imagine in the whole country there are probably not 300–400 that are in those inner-city areas and available for sale, and where we have determined that the likelihood of a sale at any reasonable cost would be accomplished.

Chairman **Cranston**. On the matter of the wash financially, could you get us a ballpark figure by tomorrow, by the end of business tomorrow?

Mr. **Vogel**. Yes, I could, sir.

Chairman **Cranston**. I would appreciate it if you would.

If this measure is enacted, would it be the VA's intent to ensure, to the degree feasible, that the use of any property transferred by the VA for use as a shelter would be compatible with the surrounding neighborhood? And would the VA seek assurances that the transferee would adhere to all applicable zoning requirements?

Mr. **Vogel**. Yes, we would, Mr. Chairman.

Chairman **Cranston**. Now, on medical care, Dr. Gronvall: Compared to the staffing level, 194,140 staff years, for which Congress appropriated funds and which the VA has maintained for fiscal year 1987, the proposal to eliminate in fiscal year 1988 funds and staffing for Category-C care would, according to our calculations, reduce the average VA hospital staff by 23 FTEE and the average hospital budget by almost $1 million. This raises concerns about how these cuts would be made at individual VA facilities.

For example, would a hospital director be required or expected to tailor the funding and staffing reductions to the types of services generally used by Category C veterans?

Dr. **Gronvall**. No, sir. I believe that the specific process of allocating that reduction, if it comes about, would be handled through our normal budget allocation process, through which we take into account the workload of each medical center.

We have stated clearly that, once we accept a veteran for care, whether the veteran falls into Category A, B, or C, the quality of care delivered is to be the best care that we could provide. So, we would not view that process as including a discount for the support of veterans who were falling into Category C.

In short, we would make our budget allocations based on the relative workload of the medical centers. We would attempt to accomplish the personnel reductions primarily out of administrative personnel and people indirectly involved in delivering care. But a portion of the staff reduction would be including personnel directly delivering medical care.

Chairman **Cranston**. If the cuts are not carefully targeted at the local level on health care for Category C veterans, will they not almost certainly have an impact on the furnishing of care to Category A and Category B veterans?

Dr. **Gronvall**. No. In the case of Category A veterans, our absolute mandate and commitment is that we manage our budget and our medical centers in such a way that we can meet the workload requirement for all Category A veterans coming to us. And we would continue to monitor that very carefully.

Likewise, we would attempt to ensure that we had our funds allocated in such a way that we could meet the Category B workload that we are experiencing, and that the discretionary reduction in care delivered would come almost entirely, or entirely, out of Category C applicants for care.

Chairman **Cranston**. According to your answer to part A of my first prehearing question, your fiscal year 1988 budget for the Medical Care Account appears to be premised in part on the enactment by mid-April of this year of the $75 million rescission you proposed for fiscal year 1987.

When April 15 arrives and no action has been taken on the rescission, which I am confident will be the case, what will be the effect on your plans for fiscal year 1988?

Dr. **Gronvall**. You are quite right that the 1988 budget was calculated on elimination of the funding related to our estimate of the cost of caring for the Category C veterans, and then that same calculation was backed into the remaining 5 months of 1987, after giving the Congress a chance to consider the proposed rescission.

We have taken no steps to anticipate adoption of the rescission, so we have not given any instructions to the field regarding reductions of personnel.

If the rescission is rejected, I think that will then require subsequent deliberations in the Congress about the status of the 1988 budget. The President's budget request for 1988 would stand on its own, I believe, as a request independent of the rescission having occurred in 1987.

Chairman **Cranston**. Thank you very much. My time has expired.

Dennis?

Senator **DeConcini**. Mr. Chairman, thank you very much.

General Turnage, I want first, on the record, to tell you that I am most appreciative of the efforts that you and your staff put forward in the budget that you submitted to us. I have some problems with the changes in home loan origination fees and other administration proposals, but I understand you fulfilled your commitment to this committee by going back to OMB, going to the White House, on behalf of the Veterans' Administration and the veterans that we all represent to get an increase in the budget, and I thank you for that.

Also, Dr. Gronvall, I want to thank you for something you did for us a couple of years ago at the veterans hospital out in Phoenix, Arizona. We appreciate that effort.

Mr. Administrator, I do have a question regarding the nursing home care unit in Prescott, Arizona. The Veterans' Administration in its fiscal year 1985 budget submission recommended a 120-bed nursing home care unit for Prescott and requested an appropriation of $8.3 million for that unit. However, the General Accounting Office issued a report late in fiscal year 1984 which recommended that the size of the Prescott nursing home be reduced from 120 to 60 beds.

I object to the finding of the GAO report for many reasons, not the least of which was the fact that statistical data used by GAO in projecting the need for the 60-bed rather than the 120-bed VA nursing home in Prescott did not accurately reflect projected growth for that area.

Shortly after the issuance of the report, the Veterans' Administration adopted the GAO recommendation, by reducing its fiscal year 1985 request for Prescott to $5.2 million for a 60-bed nursing care. Congress then appropriated the requested funds.

And now, as I understand it, the working drawings have been completed on the Prescott facility, but the project is being delayed even further.

I am sure you can understand my particular interest in this project, having worked with it for so long, and I wonder if you can tell when the project may move ahead for the Arizona veterans?

Mr. **Turnage**. I think we can respond to your questions, sir; but the details of it are better known to Dr. Gronvall than I, and I ask him to respond.

Senator **DeConcini**. Very good.

Dr. **Gronvall**. Thank you, Senator DeConcini.

Late in the Fall, the Inspector General of the VA made a specific review of that proposed project and developed some new information, based on the present state and projected state of availability of nursing home beds in the community. And, in short, the Inspector General made a recommendation that, when those were taken into account, the need that we had been projecting for the nursing home didn't exist.

The Department at that time had a different view of the matter, and we have been in intensive discussions with the Inspector General's Office; so the whole matter is being reviewed. A decision will be made within 30 days regarding whether the project will go forward.

Senator **DeConcini**. Are you aware, Doctor, that the 80-bed Hillside Care Center in Prescott has been closed, and that U.S. Care, which operates three community nursing homes in the Prescott primary service area, with a total of 390 skilled-care and intermediate-care beds, has filed bankruptcy under chapter eleven?

Dr. **Gronvall**. Yes, we are aware of that, and those events occurred after the Inspector General's Office had done the audit. So, that is some of the information we have prepared and presented back to the IG.

Senator **DeConcini**. Well, I appreciate knowing that you are on top of that. And you indicate that in 30 days you will be issuing a decision on that?

Dr. **Gronvall**. Yes.

Senator **DeConcini**. Well, obviously, you can understand my interest in it. The Inspector General was, I think, way out of line on some of the facts and figures which I will share with you, if I haven't already. Some of these problems are that many of these community homes are more than 50 miles away.

And I trust that in your projections you have built in the cost of sending the social worker and other people to visit those veterans in those homes that are a long way away. Is that accurate?

Dr. **Gronvall**. Yes, sir.

Senator **DeConcini**. I thank you.

General Turnage, let me ask you a question: You support, I realize, the administration's increase in the fee home loan origination from 1 percent to 2.5 percent. You indicate that the amortized cost of that would average about $10, I think you said, a month. Are you amortizing the up-front fee that has to be paid at time of closing? Is that what you are indicating for the $10 figure?

Mr. **Turnage**. No, I was really speaking about the net difference in the cost, based on the necessity to increase the fee from 1 to 2.5 percent.

Senator **DeConcini**. What I am interested in knowing is, arriving at that figure, if the "points" so to speak—let me refer to them as the "up-front fees" or the "points"—are 1 percent on a $76,000 home, that's roughly $760. If it's 2.5, it's $1,900. Now, are you saying that the difference of that, amortized over 30 years, is $10 a month? You can be helped by Mr. Vogel.

Mr. **Vogel**. Senator DeConcini, the 1-percent fee can be financed. The 2.5-percent fee, just like the 1-percent, can be financed. The result, an average, would be an increased mortgage payment of less than $10 per month.

Senator **DeConcini**. So, you are advising me, if I buy a VA home and qualify, and the home is say a $90,000 home, the $889 that I have to put up, I don't have to put it up now, is that right? That it can be amortized out?

Mr. **Vogel**. That is correct, sir.

Senator **DeConcini**. So then, my mortgage loan is increased by $889, the total loan to me, and that is spread out over 30 years?

Mr. **Vogel**. Yes, sir.

Senator **DeConcini**. And is that done as a routine matter?

Mr. **Vogel**. Most veterans choose to finance the funding fee, yes, sir.

Senator **DeConcini**. Yes. And lenders have no problem loaning that?

Mr. **Vogel**. No, they don't.

Senator **DeConcini**. And you are satisfied that the same will be true if the fee was increased?

Mr. **Vogel**. Yes, sir, we believe that to be the case.

Senator DeConcini. Now, you average out a $10 fee, but I notice that if it is a $98,000 home, the fee is as high as $18.84, averaging out, amortizing out. Where do you get the $10 average there?

Mr. Vogel. The $10 was based on the average cost of a home.

Senator DeConcini. Of the homes now that are being sold?

Mr. Vogel. Yes, sir.

Mr. Turnage. I think that was $70,000, Senator.

Mr. Vogel. That is correct, sir.

Senator DeConcini. Excuse me?

Mr. Turnage. That was a $70,000 mortgage, sir, that we figured the average on.

Senator DeConcini. That you figured it on?

Mr. Turnage. Yes, sir.

Senator DeConcini. Okay. Very good.

Well, I have real reservations, knowing the veteran population in my State, that an average increase of $10 is not an easy increase to accept. And I am going to have to do what I can, General, in all due respect to the administration, not to see that increase.

It is true—is it not?—that this money does not come to the Veterans' Administration.

Mr. Turnage. That is correct, sir.

Senator DeConcini. It goes into the General Fund?

Mr. Vogel. It is available to us, sir. It comes into the Veterans' Administration and is available.

Senator DeConcini. Does it come to us to a special trust fund for the VA?

Mr. Vogel. It comes into the revolving fund.

Senator DeConcini. It is a revolving fund?

Mr. Vogel. And out of the revolving fund, we are able to pay claims, as we are obligated to do.

Senator DeConcini. Would your budget be reduced by the amount of increase at all from this?

Mr. Vogel. Under existing legislation, we have not made a request for appropriations to keep the revolving fund whole. Our calculation on what we will generate in terms of revenue from sales and funding fees measured against the obligations we expect to incur over the next few years necessitates a funding fee of 2.5 percent without any appropriation. The funding increase will obviate the need for any appropriations from the Congress, as we have had to have in the last 3 or 4 years, sir.

Senator DeConcini. So, you are telling us, if you don't get the 2.5 percent, based on your budget presented here, you would have to come back for a supplemental, or look for additional appropriations someplace?

Mr. Vogel. That is correct, sir.

Senator DeConcini. Is that what you would do? Or would you reprogram? Or have you thought about what options you would have if it is turned down?

Mr. Vogel. We virtually have no other options. The money that we generate into the revolving fund comes from the sale of homes acquired in foreclosure, as well as the funding fee collected at the 1-percent rate. These collections would not keep us out of the situation of having to request an appropriation. We have no room to move there.

Senator **DeConcini**. Thank you, General, very much.

I recognize the Senator from Wyoming for an opening statement and any opening remarks, and then I would like to recognize the Senator from Maine for questions, because he came here a minute or two before the Senator from Wyoming.

Senator **Simpson**. Well, you treat me like a dog in here, don't you? [Laughter.]

Senator **DeConcini**. I could say touche, but that's not true. When you were chairman here, you were very generous.

Senator **Simpson**. Dennis, I was always very dear and charitable, I thought.

Senator **DeConcini**. You were. You were.

Senator **Simpson**. Well, indeed. And it is a special committee, you all know that.

OPENING STATEMENT OF SENATOR SIMPSON

Senator **Simpson**. I don't have any questions, but I must express something—and I wish Al Cranston were here. To say the budget here, as presented, is just something that lacks vision and vitality and is unfair to today's veterans, and turns a blind eye to tomorrow's needs, is just not so. I say this, and I would prefer to say it when Al is here. You know, I have had some marvelous struggles in here, but for heaven's sake, where does it all end? I mean, good grief, we go up $500 million, $600 million. Every attempt to do anything is met with hysteria, and it is absolutely bizarre. It's as if all of us were antiveteran.

I get so fed up with that one that it is impossible to believe. And here we are involved again in those high, dazzling arenas of emotion and fear. I am going to take a collection of fundraising letters from veterans' organizations to the U.S. populace. Some of them are disgusting; they are filled with exaggeration and hype and hoorah. I have a collection of them.

Meanwhile, while the veterans' organizations in many ways have become moneygenerating machines, we ought to inquire into their budgets and take a look. You know, I don't care what they do with it—I know they do "good things" with it. But, for heaven's sake, I don't think the people of America have it in mind that when they send in $10 or $5 or $2 that it just goes into their grand treasury and is used for lobbying activities and activities that were never intended. And I think we ought to take a good look at that. Now that I have more time, I may turn my attention to it. [Laughter.]

Senator **Simpson**. But really, unless we begin to make this distinction, so that we don't get lost here—know that I am ready to do anything that is required for combat veterans from combat theaters, and I don't care what they did—typists, clerks, whatever.

But, for heaven's sake, to just continue this bizarre thing where every non-service-connected disabled veteran, non-service-connected veteran, veterans of all types—there are 28 million of us, and each of us is entitled to every single benefit that a combat veteran draws—the people of America don't understand that.

I hate to name names, but one veterans' organization consists of some 13,700 members. That's all their membership. And they send out a fundraising letter which is hysterical; it says that we are doing nothing for veterans, nothing at all, and then says "send $12, just to keep the wolves and the snakes away from the door. Send $12, so Congress won't do us in." And here we have a budget of $27 billion. So, I guess they have had the best fundraiser they ever had in the history of the organization. So, I assume they will do it again.

I said to them, "I suggest the next time you write, when you tell them about the 13,700 disabled veterans, you tell them that half of those in the membership are non-service-connected disabled."

And let us for heaven's sake be honest with each other, and not go through this hype and hysteria, which is bizarre and disgusting.

I will tell you, I have watched the debate on the floor of this place now for 8 years. You never see Dan Inouye in the debate, or Strom Thurmond, or Bob Dole, or Lloyd Bentsen; the debate consists of people who have never even served—or, if they did, in some totally nonconsequential thing like my own service, and I was in Germany in the Army of Occupation for 2 years.

But I tell you, whether I have been in majority status or minority status, if anybody believes that somehow the veterans of the United States are picked on and used and abused, somebody is smoking something.

It is a tiresome operation to watch, and I think the American public would be appalled as they see who is writing to who and what they are saying in the process, and all the time in the way of funding it as if this were an antiveterans society or an antiveteran Congress.

There. I have said my pitch. But it all denigrates veterans. It denigrates the real veterans. And you never hear from the guys who really pulled the load. They don't surface, because they put their time in to do something for their country and weren't always trying to figure what to get out of it after the end of it.

I think to get into asking for $10 or $5, well, let them toady up something to help run the country. We have a one trillion one hundred billion dollar budget, and deficits that will run on to the end of time. So, it doesn't matter whether they are all guys left here in Congress with a "D" behind their name or an "R" behind their name, the issue is: What are we going to do about it? And you don't get anything done when, in these times when we are looking for all ways to cut, that it is just "business as usual"—revolving funds that don't revolve, moneys that don't work for us, and homeless relief. Good Lord, we have all sorts of—there are more programs and duplication than could possibly be imagined in housing, because we are a compassionate nation. We are not a bunch of hard-hearted Hannahs around here; we cough up. That's how we got to this point. I do it, too.

But I just say that to think that somehow we are right back to where I was 8 years ago here, that nothing is being done for the veterans of the United States, I think is a real travesty and is an affront to the American public.

Senator DECONCINI. Thank you, Senator Simpson. I agree with you that there certainly is a lot of hype on it. I can't agree with you that some of those who are involved in the veterans' organizations don't pull their load. At least in my State, there are many combat veterans who have argued hard and strong on behalf of the veterans.

Senator SIMPSON. We'll give those veterans anything they want; that is what I have been saying for 8 years.

Senator DECONCINI. Well, that is a debate, and I am prepared to continue to do that; but we will debate that on the floor, probably, in the future.

Senator SIMPSON. Hopefully.

Senator DECONCINI. The Senator from Maine?

Senator MITCHELL. Thank you, Senator DeConcini.

General Turnage, I have two questions, two areas that I would like to get into. The first is a question I would like to submit to you in writing, regarding the Bangor, Maine Vet Center. I wouldn't expect that you would be personally knowledgeable of all of the details of that now; so, what I would like to do would be to submit to you a detailed question in writing. That will give you a chance to look into it and respond to me in writing. It is something that has been raised before. I hope you will look into that and get back to Senator Cohen and myself as soon as you possibly can on that.

Mr. TURNAGE. Thank you, sir, we will do so. I will.

[The response to this question appears on p. 42.]

Senator MITCHELL. The other involves an issue with which I have been concerned since joining this committee, and that is the services available to veterans in rural areas distant from Vet Centers.

In 1984 I introduced legislation in that area, which gradually became part of the Veterans Health Care Act of that year, which called upon the VA to make a study over time and to report back to the Congress.

I must say to you that I am deeply disappointed, that I believe that the VA simply did not comply with the law as written.

I have before me the law, and I will read you the pertinent words. It says, in section 202: "Not later than July 1, 1986, the Administrator shall submit to such committees a report describing an experimental program that could feasibly be carried out through projects in five remote areas." The law went on to provide that "the report shall include recommendations and the reasons therefore of the Administrator regarding whether any such project should be carried out."

I and my staff and Senator Cohen and his staff wrote that language, and we thought it could not possibly be more clear in requiring a proposal for projects to be accompanied by the Administrator's recommendations on whether or not these projects—either individually or in aggregate—should be carried out.

Now, the response we got was simply to ignore the first part of it, and the VA saying, "We don't think any projects are necessary." I can understand that recommendation as part of the second provision I read; but the response, in my humble opinion, simply did not comply with the law, and totally ignored the principal provision of this section which I have just read, which states very clearly that the Administrator "shall" submit a report continuous.

In your letter to me of September 18, you referred to a regional approach, the so-called "1986 Medical District Initiated Program Planning Process." You have to say that slow, because it's hard to say. And we have since learned that, although the local center in

Maine—and you have got a terrific director there, I want to tell you, a new fellow by the name of Tom Houghhouse, who is doing a great job—is trying to deal with this problem, we have no assurance that there will be any support from the regional level—that is, the Medical District Initiated Program Planning Process to which you referred in your letter apparently, at this point, provides no mechanism for supporting the local center in that.

And I would like to ask you to look into that. There is no mechanism for doing anything about ignoring the law, and I suppose that there will be lawyers for the VA who will argue that you haven't violated the law—I am expressing an opinion, but I think it is rather clear. And I hope you would look into this and try to do something about this.

The report said that 3 percent of veterans live in remote areas, and that is a relatively small number indeed, but for them it is a critical problem. And it so happens, of course, that they are located in States like mine where access is very difficult.

We have one large population center in the very northern part of the State, and it is a 250 mile trip to go to the Vet Center just for an initial screening. It makes absolutely no sense from anybody's standpoint when you combine that with the severe winters in Maine. It poses a very real hardship. It is no surprise, then, that studies demonstrate that use of health care facilities by veterans declines with distance of their residence from the center, and in the case of northern Maine it is just about nonexistent.

In other words, these men and women might just well not be American veterans, because they don't have practical access to the facilities of the VA.

Now, I simply want to say—and I admire you and think you are doing a good job, and you got into this kind of late, so I am not trying to assign any individual responsibility—that it is a problem. It is a continuing problem. And I really hope some attention will be paid to it. And I would hope this doesn't get lost in the cracks—in other words, you ignore the law and say, "Well, look, we are going to deal with it through this District-Initiated Program process," and then the district process says, "Well, we just can't do anything about that"—that somehow, some way, the needs of these veterans will be met, because they are not unlike the needs of other veterans, and it seems to me we have a responsibility to them to make certain that there is access.

So, that is not really a question; it is kind of a statement, and I don't expect you to have personal knowledge of something like this. I recognize you get a lot of letters from Senators and send a lot of replies back. But I know Tom knows about that, because he was on the staff here at the time, and I think Dr. Brown here, he knows about that, and I hope you will look into this and see to it that some mechanism can be developed for meeting the needs of these veterans.

I acknowledge they are a relatively small part of the total number of veterans; but, for the individual veteran involved, it is of immense consequence.

Mr. TURNAGE. I suggest that the mere fact that the facility that is available to them doesn't give them a lower priority from my point of view. And I am sensitive to your question of concern.

Please allow me to look into it further and I will respond, as I will with regard to your question about the Vet Center in Bangor.

Senator MITCHELL. Yes.

If you just do me one favor when you do it. It is not a very hard thing to ask. You must have a map of the United States somewhere in your office. Get a map and look physically what we are talking about. It is hard to grasp here, but the VA Center is located perfectly in Maine. It is in the south central part of the State, in the population center, near the State capitol. It makes a great deal of sense. It just happens that we have a lot of veterans living in the far northern part of the State right along the Canadian border and it is a truly tremendous trip. It is a 250 mile round trip for these fellows. I am sorry, it can be 250 miles one way for some of them who live in the far northern tier.

So I hope you will look into it. And I appreciate your interest and concern.

Mr. TURNAGE. Thank you, sir.

[Subsequently, the Veterans' Administration furnished the following information:]

BANGOR VET CENTER

Upon passage of Public Law 98-371 in 1984, the Vet Center at Bangor was expanded by one FTEE to a four FTEE facility. Because of a long term vacancy, the senior counselor was assigned as acting team leader until November 1986, when he was converted to the position on a permanent basis. A full time counselor was hired in December 1986, to fill the vacancy which had been created by this action. Also, in December 1986, a part-time permanent counselor was hired for this team. Throughout this period of staff fluctuations, sufficient temporary appointments were maintained to keep overall team strength at four FTEE. Between permanent and temporary staff, this Vet Center had enough direct service personnel to accomplish its outreach and counseling program mission.

At the end of September 1986, 0.5 FTEE was transferred from the Bangor Vet Center to be more effectively utilized elsewhere within region 1. Throughout fiscal year 1986, the Bangor Vet Center was 43 percent below VA standards for the minimum number of new clients per month. Although the team's performance exceeded our standards for total monthly client visits, the new client category is an essential indicator of full mission accomplishment.

Please be assured that no further changes in staff strength at this Vet Center are planned. It is significant to note that in the last 2 months of this team's operation under the new permanent staff a 3.5 FTEE strength, the monthly new client activity has increased from 33 percent to 88 percent of standard. It is our interpretation that the current Vet Center strength of 3.5 FTEE can very successfully accomplish its complete mission for the area's Vietnam era veterans.

RURAL HEALTH

Over my signature in September 1986, the Veterans' Administration responded to direction by the Congress to make a report on several VA rural health initiatives. This report, the third rural health report ordered by Congress in the past year, was required by section 202, Public Law 89-528. As indicated at page 32 of the subject report to Congress, ". . . a formal demonstration program is not indicated. . . ." The Agency's conclusion was made on the basis of comprehensive analysis of the wide variety and large number of innovative approaches already in existence and being employed actively across the entire VA health care system, many of which are targeted specifically to veterans who reside in the more rural areas and remote communities. My letter transmitting the September report concluded these program initiatives largely negate rurality and remoteness as access-to-care barriers; therefore, as a result of all these findings, we did not propose the Congress identify or authorize any new, targeted rural health care demonstrations or experiments.

Based on a briefing provided to you in January by Mr. Thomas Holthaus, Director of our Togus Medical Center, and by his Regional Director, Mr. Albert Washko, we are actively pursuing establishing a VA community-based clinic at the Carey Memorial Hospital in Caribou. Operating hours will be 2 days a week for 4 hours each day. Diagnostic services will be provided by Carey Memorial Hospital on a fee basis. The proposed date for opening the clinic is April of 1987. Additional funds have been provided to support the activation of this clinic.

The Veterans' Administration is committed to meeting veterans' health care needs, irrespective of urban or rural environment. As clearly indicated in our several previous reports to the Congress on this subject, we are moving aggressively to place appropriate facilities and services where they are needed to help veterans address their health care problems. As I testified at the Senate hearing, I do not believe less VA access must accrue to veterans who choose to live in rural areas versus a large city, and we are fashioning VA approaches to neutralize any such observed disparities over time. The Togus-Caribou development is an excellent working example of the success of this locally-engendered approach to meeting human needs.

Senator MITCHELL. Thank you, General.

Chairman CRANSTON. Thank you very much, George.

John, I would like to go back to the question that I last asked you. What I was asking was what would be the effect on your plans for fiscal year 1988, not 1987, if the 1987 rescission you propose is not enacted?

Dr. GRONVALL. My answer to that was that the President's budget for 1988 would stand on its own as a request for funds. And the budget itself identifies the number of staff that could be supported, the workload estimate that we are making, and includes the proposal that the funding for category C veterans not be included in the budget.

Chairman CRANSTON. What would be the fiscal year 1988 reductions that would result from annualizing the proposed fiscal year 1987 rescission in fiscal year 1988?

Dr. GRONVALL. I can't come up with that figure. I would be glad to supply that for the record.

Chairman CRANSTON. Fine. Would you, please?

[Subsequently, the Veterans' Administration furnished the following information:]

The following chart provides the dollars and employment associated with the proposed 1987 rescission and the 1988 savings from current services. Both are associated with funding for the service disabled and all other veterans who apply for care except those veterans in Category "C".

	1987 rescission proposal	Savings from 1988 current services	Change
Dollars (thousands)	$75,000	$167,186	$92,186
FTEE	1,400	3,750	2,350

Chairman CRANSTON. On the matter of bed conversion, the combined Veterans' Organizations' Independent Health Care Budget proposes adding a total of approximately 550 nursing home beds in fiscal year 1988 through conversion of hospital beds. Do you consider this proposal to be reasonable and achievable?

Dr. GRONVALL. That is a higher number of beds to be converted than we projected in our budget. We have reviewed short-run and long-run projections of bed conversions.

Chairman CRANSTON. Is it reasonable and achievable to do what they are asking?

Dr. GRONVALL. I think that that is a larger number than can probably accomplished in 1988.

Chairman **Cranston**. If you were to enlarge your conversion plans to this extent, what would be the result in terms of net increase patient census?

Dr. **Gronvall**. I don't have a figure for that.

Chairman **Cranston**. Could you supply that figure?

Dr. **Gronvall**. I would have to review that proposal, and then supply that for the record.

Chairman **Cranston**. Could you get that to us by the end of the day tomorrow?

Dr. **Gronvall**. Yes.

Chairman **Cranston**. Fine. Please try.

Do you agree with the estimate in the Independent Budget that this would entail no cost for fiscal year 1988?

Dr. **Gronvall**. Whenever we undertake a large-scale conversion of hospital beds to nursing home beds, there is a cost involved. So, that does not come free of cost.

Chairman **Cranston**. What would the cost be, especially for minor construction?

Dr. **Gronvall**. For the figure that is used in that budget?

Chairman **Cranston**. Yes.

Dr. **Gronvall**. Again, I don't know. That is their estimate, and so I have not done a calculation of what would be the cost of that.

Chairman **Cranston**. Could you make a rough calculation and submit it to us?

Dr. **Gronvall**. Yes.

Chairman **Cranston**. Again, by the end of the day tomorrow if you can.

[Subsequently, the Veterans' Administration furnished the following information:]

The budget request includes a conversion of 282 hospital beds to nursing in 1988. The independent (VSO) proposal would increase the 1988 planned conversion by 268 beds. This equates to the following resource adjustments:

Nursing home census (268 beds × 95 percent occupancy rate), 255 census.

Resources transferred from VA hospital to VA nursing (representing operational costs charged to the new activity and decreased from the old activity), $11,403,000 and 319 FTEE.

Additional capital expenditures required to convert existing space for nursing beds, $7,504,000.

Chairman **Cranston**. In your response to part D of my prehearing question No. 6, relating to AIDS treatment, you noted that the cost to care for an AIDS patient exceeds that of a non-AIDS patient with a similar DRG by about $25,000.

What adjustments are being made in the VA's resource allocation methodology to protect medical centers from inadequate funding for the care of AIDS patients?

Dr. **Gronvall**. Yes. We, during 1986, made a special allocation of funding to our medical centers, allocating additional funds to the medical centers that had had over 10 cases of AIDS that they had treated.

The problem is worse in 1987, of course. And we are now reviewing our experience for 1987, the actual experience to date, and our projection for the rest of the year, and intend to make an additional special allocation to our medical centers in 1987. Again, the ones that are experiencing large numbers of AIDS cases.

We have some 900 AIDS patients now actively being treated in the VA.

Chairman **Cranston**. How many are now being treated?

Dr. **Gronvall**. About 900. Our total experience to date is some 1,600. We, looking forward, think that during 1987, we will probably treat some 1,300 patients with AIDS. And that may increase to something like 1,900 in 1988.

Chairman **Cranston**. How effective are those adjustments in providing full reimbursement for the care provided?

Dr. **Gronvall**. I don't know that they provide full reimbursement. We have attempted to try to document what the cost is, so that the basic DRG reimbursement, that would cover the basic infection or malignancy, is adjusted by adding these funds.

As our experience progresses, my intent is to make appropriate adjustments in the DRG methodology, so that we better take into account the actual cost of care of AIDS patients. So, it is a growing problem that we intend to stay on top of.

Chairman **Cranston**. In light of the increasing numbers of AIDS patients, and the potential for certain medical centers to be unusually strained for resources because of providing the higher intensity of care required for those patients, when will fiscal years 1987 and 1988 RAM adjustments for AIDS treatments be made?

Dr. **Gronvall**. The special allocation that we will do in 1987 will not be a part of the resource allocation model. I believe within the next month, we will probably make a special allocation to our medical centers of 1987 money, as an increment to support those with a large AIDS experience.

Chairman **Cranston**. When will that adjustment be made?

Dr. **Gronvall**. I believe within the next month.

Chairman **Cranston**. Why does it have to wait that far into the fiscal year?

Dr. **Gronvall**. We are doing additional analyses of both the case load and trying to improve our understanding of what the costs are, that are not covered by the basic resource allocation models. So, we want to be sure that we have made the most intelligent allocation that we can.

Chairman **Cranston**. For 1988, I assume that you can commit to getting that adjustment made up front, instead of so late in the year.

Dr. **Gronvall**. My hope would be that that could be incorporated right in the basic budget allocation for 1988.

Chairman **Cranston**. Does your fiscal year 1988 budget include any savings from the proposed conversion of the Walla Walla VA Medical Center to an outpatient clinic?

Dr. **Gronvall**. I would have to look to someone else to tell me whether that was taken into account. I believe the answer is yes, because the proposal was to implement that beginning October 1, 1987.

Chairman **Cranston**. How much would that be?

Dr. **Gronvall**. If we don't have the answer at our finger tips, we could submit that for the record.

[Subsequently, the Veterans' Administration furnished the following information:]

SAVINGS

The first year impact shows a slight cost increase. As with many Federal facility changes, savings accrue in the second year and later years, while the cost of managing the change are borne in the first year. These costs are incurred in order to protect Federal employees and the agency's mission.

Bed closures are planned to be implemented over a 12 month period, beginning October 1, 1987. Plans include closure of psychiatry beds within 6 months, closure of surgery beds within 9 months, and closure of medicine beds by the end of fiscal year 1988. Bed closure may occur sooner if key physician staff leave before the scheduled closure dates. We anticipate services in all bedsections would be scaled back before full closure of each service.

The saving estimates by bed service are shown below:

Service	Target closure month	Fiscal year 1988 savings (thousands)
Psychiatry	6th	$1,109
Surgery	9th	596
Medicine	12th	1,096
Savings from inpatient		2,801

In addition to the reduction in inpatient costs, there would be a slight reduction in outpatient activity. During fiscal year 1988, the outpatient visits are estimated to be reduced by 5,000 visits which will result in a savings of approximately $390,000. This cost per visit acknowledges that the full cost per visit of $90 cannot be saved from this small reduction.

Savings from outpatient: $390,000.

INCREASED COSTS

The three major costs associated with the mission change are transfer of resources to Spokane VAMC, increased patient transportation expenses and increased contract hospitalization. Since the major changes in inpatient services would be accomplished gradually over the years, the cost transfers are estimated to be one-half the full year cost.

Increased costs: $940,000.

Cost of relocation/separation:	
Severance pay (60 employees)	$413,000
Unemployment compensation (60 employees)	228,000
Relocation costs (approximately 90 employees)	2,001,000
Total	2,642,000
Recap of fiscal year 1988 costs:	
Net savings inpatient/outpatient	2,251,000
Cost of relocation/separation	(2,642,000)
Total fiscal year 1988 cost	391,000

Chairman CRANSTON. All right. If you can get that to us now, if possible, while I go ahead with another question.

Dr. GRONVALL. While we go onto another question, someone can try to find the answer for me.

Chairman CRANSTON. Fine.

Frank Murkowski and I have written you with some questions posed by Senators Evans and Adams regarding Walla Walla and the APAMC mission change that you propose. I would appreciate it if you would expedite the response to that letter.

Mr. TURNAGE. I will, sir.

Chairman CRANSTON. Fine.

Mr. TURNAGE. We have considerable data on that.

Chairman CRANSTON. Good.

[The questions and responses appear on p. 516.]

Chairman **Cranston**. The Independent Health Care Budget for Veterans asserts that your fiscal year 1987 budget does not provide for $28 million in Federal employee health benefits plan costs that the VA must pay in the current year. Are you being required to absorb that amount in fiscal year 1987?

Dr. **Gronvall**. My understanding is that the 1987 budget took into account our best estimate of the employee health benefit that needed to be funded.

Chairman **Cranston**. Is the Controller here to check that figure.

Mr. **Hoffman**. Yes, me. Mr. Chairman, it is probably part of the absorption that we had to take to pay some $74 million in medical care. We have had to absorb 50 percent of the pay raise, and included in there is probably a fortune for health funding.

Chairman **Cranston**. We are talking about 1988.

Mr. **Hoffman**. In 1988? No, nothing in 1988. I was talking 1987, sir.

Chairman **Cranston**. What is going to happen in 1988?

Mr. **Hoffman**. There is no absorption in 1988.

Chairman **Cranston**. Back to you, Tom. In your statement you indicated that a decision has been made to close or move some Vet Centers prior to October 1 of 1987. How many Vet Centers would be moved or closed during this fiscal year?

Mr. **Turnage**. We're speaking on the order of something like 9 or 10, sir. And some of those I visited. And, as a matter of fact, when I go to a medical center, I try to visit a Vet Center or regional office. Also, I have a sensitivity to the role that they are playing.

However, we have sped up, through the Department of Medicine and Surgery, a very comprehensive set of criteria related to those that should be and would be moved. And, once again, we think it is to the benefit of the veteran constituency, and we think it is to the benefit of the system overall.

For example, no consolidation would occur unless they are within 5 miles of each other and similar type considerations. A decision to consolidate would also be based on the ability of the medical center to absorb and provide additional service. Also, no loss or change in personnel would be contemplated, nor would the constituency. So, for the record, if you would like, we can give you those criteria.

Chairman **Cranston**. Where are those centers located?

Dr. **Gronvall**. The nine centers that we are talking about are Avon, Maine; Rochester, New York; Wilmington, Delaware; Fayetteville, North Carolina; Milwaukee, Wisconsin; Oak Park, Illinois; Sioux Falls, South Dakota; Northridge, California; and Houston, Texas.

Chairman **Cranston**. If you would give us the criteria that you mentioned, I would appreciate it.

Mr. **Turnage**. Surely.

[Subsequently, the Veterans' Administration furnished the following information:]

CRITERIA: FOR RELOCATION OF VET CENTERS TO MEDICAL FACILITIES

Criteria to be used for selection of vet centers for move to medical facility grounds (a) as pilot program affecting 7-14 sites during fiscal year 1987, and (b) a larger number of sites, according to present law, during the period October 1, 1987 to September 30, 1989.

1. Acceptability:

(a) Assessment by Director, Readjustment Counseling Service, and Regional Director, after consultation with VAMC Director and Regional Manager for Readjustment Counseling that move is feasible.

(b) Recommendation for approval by Director, Readjustment Counseling Service, to the Chief Medical Director thru 10B and 10X.

2. Catchment Area Distributions of Vietnam Era Veterans Population by Census:

County-based census data for Vietnam era veteran population will be developed for catchment area of present vet center site and for medical facility location. The question to be answered: Is the medical facility adequately strategically located with respect to VEV population density, vis-a-vis the present vet center site? This factor will be assessed in relation to the total number of veterans seen by the vet center to date, since inception, which furnishes an estimate of the proportion of the target population already served, vs. the proportion yet to be served.

3. Distance (Mileage) Between vet center and Medical Facility:

Distance between vet centers and medical facilities varies considerably, from a few miles to over a hundred miles. Vet centers closer to medical facilities will rank higher on this criterion, depending, however, on analysis from criteria (1) and (2).

4. State Vietnam Era Veteran Outreach Centers:

Some States have State VEV outreach centers, some of which provide services similar to VA vet centers. Availability of comparable services will be assessed, in relation to geographical distances, population concentrations, and anticipated duration of such State centers.

5. Vietnam Veterans Resource Centers:

With 10 vet centers designated for re-configuration as VVRCs, these sites should be maintained as community-based facilities at least for the duration of the VVRC pilot project. Subsequent developments would then be contingent on outcome of pilot project.

6. Special Population Factors:

Certain vet centers principally serve an ethnic minority veteran population. Local assessment should determine availability and acceptability of medical facility site to such populations.

7. Transportation and Parking:

Assessment of public transportation, and, where applicable (i.e., high-density metropolitan areas) parking advantages and disadvantages of medical facility site in comparison to vet center location.

8. Availability, Cost and Suitability of Medical Facility Space:

To be assessed: (a) Presently available medical facility space; (b) One-time cost of space adjustments at medical facility, and (c) Operational suitability of medical facility space, in relation to other services.

9. Recurring Environmental Costs Comparison:

Total recurring environmental costs at present vet center location (rent, utilities, maintenance, parking) will be compared to such recurring costs at medical facility.

10. Contract Program Impact:

Size and workload projection, as affected by mileage and population density considerations, will be assessed for impact of move, in order to project presence or absence of pressure on contracts dollar utilization.

11. Actual Workload Trends at Present vet center:

Actual workload trends at present vet center will be assessed, and related to other factors, including distance and veteran population densities. Examples of case-by-case analysis: (a) declining workload reflecting accomplishment of mission may favor avoidance of cost of move though decreasing size, or closing of present vet center, and (b) continuing high workload, notwithstanding relatively low veteran population, may favor a move. This analysis will be required for certain sites because of differing prevalence rates of readjustment difficulties in the target population.

Chairman CRANSTON. I would also ask that you inform the committee before any action is taken to close or move any vet centers beyond those named.

Mr. TURNAGE. All right, sir.

Dr. GRONVALL. Mr. Cranston, I should comment to that, that you use the term "close". In this proposal to relocate the nine, there is no recommendation to close any Vet Center, it is a relocation of the total staff and total mission. So it is a geographic relocation, not a closure.

Chairman CRANSTON. OK. Well, let us know before any more are added to the list for closing or moving.

It is the intention of this committee to move forward swiftly with a markup next Tuesday of legislation to postpone for a year the beginning of the mandated transition period. In view of the submission of the April 1 and July 1 reports, and your position of having no objection to this legislation, would you agree to hold off on those reports to give us a chance to move that legislation forward in the next few months?

Mr. TURNAGE. Yes. We have no objection.

Chairman CRANSTON. I appreciate that.

Mr. TURNAGE. OK.

Chairman CRANSTON. John, a further question for you. Prior to fiscal year 1987, funding for continuing education needs of medical account employees was appropriated to the postgraduate and inservice training activity in the memo account. Beginning in fiscal year 1987, such funding was requested and provided through the Medical Care Account in the Miscellaneous Benefits and Services Activity, within the major activity classification, Maintenance and Operation of Veterans' Administration Medical Programs.

In the Independent Health Care Budget, pages 31 and 32, it is asserted that this transfer was a mistake and that the prior arrangement should be re-established. What is your assessment of that recommendation?

Dr. GRONVALL. I don't know the basis of their recommendation, so I can't comment on that. From my standpoint, the recommendation was an appropriate one. It puts the expenditure into the appropriation which benefits directly from the education being given. And I view the training as directly contributing to improving the quality of care in our medical centers.

So, I think that the medical care account is the most appropriate place to fund that activity.

Chairman CRANSTON. Was a demand for care studies, similar to studies carried out in 1984 and 1985, carried out last year?

Dr. GRONVALL. A survey was initiated late last year. The final results of the demand for care studies, so called, were never completed, because it was overtaken by the fact that beginning last July, we have documented every month in a 100 percent sample, all of the veterans applying for care and what happens to their care.

The earlier studies had been done on 1- or 2-week samples, and so they represented only a snapshot of the veterans that were coming to us for care. We now have comprehensive monthly reports of every veteran coming to us for care.

Chairman CRANSTON. Based on this new system, what is the number that is now being turned away?

Dr. GRONVALL. The number that we are not able to provide care for or who are turned away—to use that term—is extraordinarily small. Something in the order of 100 or 150 veterans each month out of all of the veterans that apply for care.

Chairman CRANSTON. How did it get reduced from 35,000 to 100?

Dr. GRONVALL. I only can comment on some of the changes that I think explain that difference. The two studies were done on a different basis, on a different set of assumptions. And I think the eligibility law was changed between the last study and the new data that I am talking about. So there are many changes. And I think it is not really possible to describe why one set of figures was so different than our experience since last July. I obviously believe the comprehensive report that we have been doing since last July is the one that we should focus attention on, because we document every veteran who comes to us for care, and what happens to him or her.

Chairman CRANSTON. Do you think the methodology used in the previous surveys was faulty?

Dr. GRONVALL. Yes. When we had done the studies, in fact, and were asked to testify on them, I can remember both Dr. Custis and Dr. Ditzler testifying to their concern that there were flaws in the studies, that the studies made projections based on a set of assumptions in a snapshot way, and that they didn't necessarily reflect a total comprehensive and accurate assessment.

Mr. TURNAGE. Mr. Chairman, if I may add. Since July 1, when we started responding to the so-called means test, we have had the most comprehensive system of data that has existed heretofore in the whole operation of DM&S. And your staff has been privy to that. And it is an open book to the veteran service organizations, to your staff, and all others who have an interest in it.

We think we have definitive data that is defensible, and we see no basis for these huge figures that are given out, talking about people who we have turned away.

Chairman CRANSTON. That's encouraging. I hope that that is the case.

Dr. GRONVALL. Chairman Cranston, you had asked a question about Walla Walla earlier. And I have been supplied the information. The mission change, or the reorganization we have described, would result in a saving of about $7.3 million annualized at Walla Walla. The current total recurring budget of the Walla Walla Medical Center is about $11.3 million. After we take into account some of the transition costs, the outpatient program that we have described there would continue to cost about $2 million.

The medical care that would be transferred to other medical centers would cost about another $1.5 million. So the net savings to the Department, as best we can project it, is about $7.3 million.

Chairman CRANSTON. In 1988?

Dr. GRONVALL. I don't think all of that would occur in 1988. That is an annualized figure. One other thing that is important is that by making that reorganization, we would avoid the need for a major capital project at Walla Walla, that is estimated to cost some $24 million, if it is to continue to play its present role.

Chairman CRANSTON. Could you get us that 1988 figure tomorrow?

Dr. GRONVALL. Yes.

Chairman CRANSTON. Thank you.

[Subsequently, the Veterans' Administration furnished the information which appears on p. 46.]

Chairman Cranston. Regarding employee training, which, prior to fiscal year 1987 was funded through the MAMOE account, a document entitled "Comparison of President's Budget and Independent Budget for VA Medical Care," which was submitted to the committee together with the Independent Budget states, "No funds were included for the postgraduate inservice training initiative in the Administration's budget." Is that correct?

Dr. Gronvall. I don't believe so. We transferred the fund source from MAMOE to the medical care budget, and we have continued to make requests. That transfer was neutral in terms of the amount of money to be made available for that function.

Chairman Cranston. How much is in the budget for PIT?

Dr. Gronvall. Someone would have to give me that figure.

Chairman Cranston. If you could provide that tomorrow, then.

Dr. Gronvall. I would be glad to.

[Subsequently, the Veterans' Administration furnished the following information:]

The 1987 budget eliminated PIT as a separately identified program by transferring full funding to the Medical Administration program and the Medical Care appropriation. The 1988 budget request increases those amounts by the inflation factors applicable to each account:

[In thousands of dollars]

	Fiscal year—	
	1987	1988
Medical care	$8,757	$9,081
Medical administration	184	190
Total	$8,941	9,271

Chairman Cranston. Next is a DVB question for John Vogel. The DAV, in its written testimony submitted to the committee in advance of this hearing, raised the issue of the status of the VA's proposed regulations revising the disability rating schedule with respect to hearing loss.

Section 355 of title 38 requires the Administrator periodically to readjust the VA's rating schedule "in accordance with experience". And on January 9, 1984, the Veterans' Affairs Committees, in their explanatory statement accompanying the Veterans Compensation Program Improvements Amendments of 1984, specifically directed the Administrator to conduct a study of the rating schedule with respect to hearing loss suffered by veterans.

I understand that the following transpired: Based on its study. The VA developed revised regulations to increase significantly the disability rating for certain hearing losses, as well as modify the VA standard diagnostic testing procedures.

These proposed regulations were sent to OMB for its approval in September 1986. OMB sat on them for 3 months, until finally, in December 1986, returning them to the VA unapproved.

John, are you familiar with the discussions and exchanges that transpired between the VA and OMB during that 3-month delay?

Mr. Vogel. There wasn't a large dialogue during that period, but upon the return there certainly was. We explained the rationale and the reasons for having conducted an assessment of the methodology to determine hearing loss and the average impairment to earning capacity.

It is for that reason that I recommended, and the Administrator approved, the change to the methodology, which would take into account modern methods, and also assess high frequency hearing loss that the previous methodology failed to assess in a proper way.

We have been in discussions with the Office of Management and Budget, and expect to be able to resolve a misunderstanding on the reasons we undertook that, and to ultimately promulgate those regulations.

Chairman CRANSTON. What do you estimate the timetable to be?

Mr. VOGEL. We are, right now, attempting to take the new methodology and apply it to the present rating schedule. I have a few people who are technically proficient in that area in the Compensation and Pension Service, and they are assessing the new methodology could be laid over the present rating schedule.

They don't have an answer for me, yet. If it is able to be done, we expect to be able to move forward with the regulatory change. If it is not, we are back to discussion with them on the average impairment question raised by the Office of Management and Budget.

Chairman CRANSTON. If you could give us, for the record, a statement of the positions taken by OMB and your responses, I would appreciate it.

Mr. VOGEL. Certainly, sir.

[Subsequently, the Veterans' Administration provided the following information:]

In order to preclude a legislative requirement to study hearing loss which was contained in a 1983 Senate compensation bill, Chairman Montgomery requested (and Administrator Walters agreed) that the VA conduct a hearing loss study under the statutory rating schedule authority (38 U.S.C. 355). In January 1986 DM&S completed its "Report on Hearing Loss Study" and forwarded it to Congress with recommendations for changes in clinical testing methods. At this point DVB began lengthy and intensive discussions with DM&S concerning amendments to the hearing loss portion of the rating schedule so that the new testing results could be used for compensation purposes.

The proposed rating schedule amendments were completed in July 1986, and the package was approved by Administrator Turnage and forwarded to OMB on September 12, 1986, for their 10-day review under Executive Order 12291, Federal Regulation. On September 29, 1986, OMB notified VA that the review period would be extended, and on December 2, 1986, OMB returned the package for reconsideration suggesting that an additional study was necessary to establish "the relationship between each level of hearing loss (as measured under VA's proposed new procedures) and average impairment to earning capcity." Additional dicussions with OMB staff in January 1987 did not succeed in changing OMB's position.

OMB asserts that the proposed rating schedule amendments fail to satisfy two criteria of Executive Order 12291. It is OMB's position that (1) the proposal does not appear to be based upon sufficient information to permit VA or OMB to predict the actual consequences of the proposed changes, and (2) it is not clear that the proposed actions will maximize net benefits to society. Under section 6(a)(3) of the Executive Order OMB has the authority to require an agency to obtain and review additional relevant data from appropriate sources. Using that authority OMB is requiring an "economic validation" of each level of hearing disability and that the results of such a study be included when the VA resubmits the proposal for further OMB review. Under section 3(f)(1) of the Executive Order an agency is required, unless judicially or legislatively mandated otherwise, to refrain from publishing a proposed rule change until OMB has concluded its review.

The last attempt to economically validate the entire rating schedule was not successful. The VA's position is that the proposed changes on hearing loss evaluation are justified under the Administrator's statutory authority to adjust the rating schedule based on "experience" (38 U.S.C. 355). "Experience" is a general term and is not limited to economic validation. During development of the present proposal a sample of 245 veterans were tested under the current and the new procedures and the proposed schedule was adjusted to provide for evaluations that were relatively equivalent to those obtained under the current schedule. A small number of veterans with severe high frequency hearing loss may realize increases while other veterans, without a protection provision, may be reduced. Because of this relative equivalency it appears that OMB's major objection concerns the newly proposed 90 percent and 100 percent levels of compensation.

A significant issue associated with hearing loss is whether that disability, as a rated entity, should be considered totally disabling. There are presently 1220 veterans with hearing loss as their primary disability who are receiving compensation at the 100 percent rate because of individual unemployability. Essentially, these veterans have been able to establish to the satisfaction of a rating board that hearing loss can be a factor in total disability and unemployability.

Chairman **CRANSTON**. Tom, back to the Vet Center matter for a moment. One key point regarding transferring Vet Centers should be, as far as I'm concerned, to keep a separate visible location at the medical center, and to protect for 2 years at least both the funding and staffing for the vet center that is transferred. Would you agree with that policy?

Mr. **TURNAGE**. I don't know that that is expedient in every case, Mr. Chairman. The reason for my response is if, in fact, we are using the available facilities at a medical center in the most efficient way now, it may mean that in order to provide the expanded care, it may be important to have the resources transferred to the medical center itself.

There may not be a separate building available for that kind of thing. However, it seems to me that part of the objective in selecting the particular locations that we have required the complete support of the medical center director and of the Vet Center director, so that there was no barrier, psychologically or otherwise, about the move and the fact that continued service would prevail for the constituency.

So, I would not like to have that kind of constraint. On the other hand, it seems to me, that this is in keeping with the law that gives us the option of making these kinds of moves, in some kind of a deliberate, patterned, effective way.

Chairman **CRANSTON**. To the best of your ability, there should be a separate entrance, or separate building, or something that sets it aside.

Mr. **TURNAGE**. I have no objection to that, sir. In some cases, Mr. Chairman, it does not make sense what we are doing, simply because of the expansion of the program. In one case, I know where there is a Vet Center located across the street from the medical center.

If, in fact, we could collocate, we would benefit from that in a number of different ways. So, we are trying to do it in a very deliberate, logical way.

Chairman **CRANSTON**. Most of all, if the veteran can avoid having to go through the lobby of the main medical center in order to get to his destination, that would be great. I hope you can achieve that.

Mr. **TURNAGE**. Sir, we will be sensitive to that.

Chairman **CRANSTON**. On the funding and staffing for the Vet Center that is transferred, will you be able to protect that for 2 years?

Mr. **Turnage.** That was one of the conditions that we established within the criteria in order to continue that kind of program. Except for the fact that, in some cases, the support for the psychological care/psychiatric care of the people who are involved in it, will be expanded to include not only what the Vet Center itself could have offered, but what the medical center will be able to provide in the new environment.

Chairman **Cranston.** But the funding and staffing, before the transfer, will be protected for 2 years?

Mr. **Turnage.** We expect that.

Chairman **Cranston.** Regarding the Home Loan Program: Department of Veterans' Benefits Circular 26-80-11, dated September 5, 1986, established new VA credit underwriting guidelines, which set forth minimum residual income standards. The guidelines divide the country into four geographic regions, with different standards applicable to each. Since each region consists of approximately one quarter of the country, cost-of-living and housing clearly are not homogeneous with in those regions, and wide variations exist among the distinctly different areas each region contains. The most striking differences can be found between rural and urban areas, and among areas of different population density.

Why aren't the minimum residual income standards more sensitive to local cost-of-living variations than are the present regionalized standards? Specifically, why don't the standards take into account differences in the cost-of-living between rural and urban areas, and among areas of different population density?

Mr. **Vogel.** Senator Cranston, those are guidelines that we put out that are not hard and fast rules. We have issued guidance to the regional offices concerning loan underwriting and encouraged them to exercise judgment on the variances they find, where the population is and where the home purchase is intended to take place. They are not guidelines set in concrete. There are no rules set in concrete, they are merely guidelines, sir.

And we have communicated concerns on regional variances, and we are trying to obtain additional information from the Bureau of Labor Statistics. This is another tool we can use to assure that the underwriting is sound, and the veteran who buys the home keeps the home.

Chairman **Cranston.** Could you review the matter and see if those other factors shouldn't be included?

Mr. **Vogel.** Yes, sir. We would be pleased to.

Chairman **Cranston.** I would appreciate if you would report back to us.

Mr. **Vogel.** Yes, sir.

[Subsequently, the Veterans' Administration furnished the following information:]

The VA formally recognizes military benefits (described below) and allows at least a 5 percent reduction in the residual income required for military personnel and retirees applying for VA loan guaranty. This lessens the effect of the revised credit standards on such individuals.

Military benefits have always been considered when calculating an applicant's residual income. Benefits that result in tax-free income, including funds for quarters, clothing, etc., are reflected in the underwriting process as "net income". Other military benefits were, until recently, treated generally as a compensating factor. As further recognition of the value of such benefits we recently authorized our field stations to reduce the residual income guidelines for military personnel by a minimum of 5 percent if it can be shown that the benefits are utilized on an ongoing basis. This reduction may also be applied to military retirees who enjoy the same benefits.

Chairman CRANSTON. The new guidelines appear to have had a particularly severe impact on active duty military personnel, whose real incomes may be undervalued, because the guidelines do not take into account fringe benefits provided to military personnel, such as medical benefits, and commissary and PX privileges. Why aren't the nonsalary benefits available to active military personnel quantified and taken into account in the determination of residual income?

Mr. VOGEL. Those benefits which are available but don't appear necessarily in the paycheck of a member of the Armed Forces are factored in.

Chairman CRANSTON. They are factored in?

Mr. VOGEL. Yes, sir. They are.

Chairman CRANSTON. Is that stated in the guidelines?

Mr. VOGEL. I would have to ask Mr. O'Toole, and maybe he can help me with that.

Chairman CRANSTON. If not, would you amend the guidelines to make sure it is?

Mr. VOGEL. Yes, sir.

Chairman CRANSTON. Fine. And in the interim, get out a directive to the regional offices?

Mr. VOGEL. Yes, sir.

Chairman CRANSTON. Tom, I'll submit further written questions, and I would like to ask that you maintain your excellent record of responding so fully, swiftly, and cooperatively. Continue to do it within 10 days after we submit them. Can you do that?

Mr. TURNAGE. I am pleased that is your perception, sir. We are trying.

Chairman CRANSTON. Good.

Mr. TURNAGE. By the way, Mr. Harvey suggested that there was a question that came up during the previous testimony of Secretary Shasteen, that you asked his response to.

Mr. HARVEY. Actually, Mr. Chairman, it was the homeless veterans panel. You asked me to look into the matter of Mr. Jesse Moses, who is one of the panelists on that. Grady Horton, who is Deputy Chief Benefits Director, is here with me today. He spoke to Mr. Moses out in the hallway after that, got additional identifying information from him, and asked Mr. Moses to bring the materials that he has, that he said he felt were not included in his VA records to the VA regional office tomorrow. And we will have one of our benefits counselors work with him and see if there is something appropriate to which he is entitled that we should pursue with him.

Chairman CRANSTON. Great. Thank you very much. And thank you for the fast work in the hallway. I appreciate that.

Tom, we did understand each other that you will get the material back within 10 days when we resume?

Mr. TURNAGE. Yes, sir. We did.

Chairman CRANSTON. Thank you very much for all of your cooperation in helping us today.

Mr. Turnage. Thank you, sir.

Chairman Cranston. I am grateful to you.

Mr. Turnage. Thank you, Mr. Chairman.

Chairman Cranston. Our next panel consists of Paul S. Egan, Deputy Director, National Legislative Commission, and John F. Sommer, Deputy Director, Veterans' Affairs and Rehabilitation Commission, The American Legion; Michael R. Leaveck, Legislative Director, Richard F. Weidman, Director of Government Relations, and Thomas A. Sherwood, Director of Health Policy and Planning, Vietnam Veterans of America; and Richard W. Johnson, Director of Legislative Affairs, Non Commissioned Officers Association.

Apparently Mr. Johnson was unable to make it because he is currently testifying before the House Veterans' Affairs Committee on the new GI Bill. His written statement will be entered into the record.

[The prepared statement of Mr. Johnson appears on p. 390.]

Chairman Cranston. Since I may have to leave before you have completed your 5-minute statements—I have to be some where at 3:30—I would like to ask one question before you give your testimony; two questions.

Would you support an authorization being added to S. 477 for fiscal year 1987 supplemental appropriation of the $30 million authorized but not appropriated in fiscal year 1986 so as to keep the VJTA program running through the remainder of this fiscal year and in fiscal year 1988?

Mr. Egan. Speaking for The American Legion, we would support that.

Chairman Cranston. Mike?

Mr. Leaveck. Yes. Mr. Chairman, speaking on behalf of the Vietnam Veterans of America, we would very warmly endorse that proposal.

Chairman Cranston. Great. Thank you.

If S. 477 were amended so as to limit the properties available for transfer to foreclosed properties already in the VA's inventory, but which cannot be disposed of readily, and that result in no net gain to the agency as a result of maintenance cost, utilities, taxes and other costs, or alternatively to provide that no transfers could be made unless the VA determined that the transfer would not be to the financial detriment of the Loan Guaranty Revolving Fund, would you still have a problem with giving the VA discretionary authority to transfer title to these kinds of properties for use as shelters?

Mr. Egan. Once again, Mr. Chairman, from The American Legion's perspective, we would still have a problem. And I will give you a hypothetical example of the problem that we see.

If, for example, a veteran owed $60,000 in the property at the time of foreclosure, and if in this example, the VA were to acquire the property rather than simply pay off the guarantee, turned around and sold the property for $40,000, it is our understanding that the veteran would then owe the VA $20,000.

In the event that the property was simply given away, or given away for a dollar or something of that nature, that veteran would still owe some $60,000.

Chairman **Cranston**. Thank you very much. You can now proceed to read your statement. Again, I apologize for the fact that I am going to have to leave before you are quite done. And Jon Steinberg and Tony Principi will carry on.

STATEMENT OF PAUL S. EGAN, DEPUTY DIRECTOR, NATIONAL LEGISLATIVE COMMISSION, THE AMERICAN LEGION

Mr. **Egan**. John Sommer and I are going to divide our time. I am going to address a few of the economic issues at stake here and he will address the veterans' specific issues.

With regard to the proposal to increase the home loan user fee, we are certainly opposed to that. And we would, in fact, prefer to see that user fee expire on schedule at the end of September. Failing that, however, we would certainly like to see an additional exemption from the fee for first-time home buyers.

Related to that is the proposal in this budget to allow negotiated interest rates. We believe that would simply mean higher interest rates, and that would simply mean that the increased risk of default and foreclosure would be heightened. That, in our judgment, is not a good thing to do, particularly with the current status of the revolving fund.

Given our response to your question about whether or not we would still have a problem with the authority for the VA to rid itself of the hard-to-market properties, I think I will turn over the microphone at this point to Mr. Sommer.

Chairman **Cranston**. Thank you very much.

STATEMENT OF JOHN F. SOMMER, JR., DEPUTY DIRECTOR, NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION, THE AMERICAN LEGION

Mr. **Sommer**. Mr. Chairman, to continue with respect to addressing the legislative proposals on which Paul did not touch, we are supportive of COLAs consistent with the Consumer Price Index. The American Legion is opposed to indexing compensation and DIC rates. We are opposed to the change in eligibility in plot allowance. We support the assumption by the Veterans' Administration of the Veterans Mortgage Life Insurance Program. We support budgeting of all benefit costs of the peacetime GI Bill by the Department of Defense, and we oppose elimination of the VA education loans.

With respect to the Department of Veterans Benefits, as was previously mentioned, the budget proposal reflects a decrease in average employment of 296 FTEE. And if these employment reductions are effective, employment in DVB will have been reduced by well over 5,500 FTEE since 1979. These losses are causing problems in the regional offices, and we feel they are adversely impacting on the quality and timeliness of the delivery of benefits and services to veterans.

In the Department of Medicine and Surgery, the level of staffing for medical care reflects a net personnel loss of over 3,800 FTEE. We are totally opposed to any reductions in medical personnel.

Further reductions will result in irreparable damage to the VA medical care system and erosion of the quality of care provided veterans.

To The American Legion, the proposed rescission of $75 million in fiscal year 1987 and further reductions of funding in fiscal year 1988, based on the elimination of funding for treatment of category C veterans, is totally unacceptable. We feel this can do nothing but cause all veterans using the system to suffer. In addition, we do not believe that Congress intended for category C veterans to be eliminated from VA medical care when developing the language of Public Law 99-272.

With respect to medical construction, although the construction budget reflects a nominal increase, we do have some concerns beginning with the fact that there are no nursing home care units included in the request. The only funds requested for nursing care are $4.5 million under minor construction for the conversion of beds.

We are distressed to see only two replacement hospitals included in the projection. We feel that OMB is only fooling itself by delaying badly needed renovation projects in the system.

With respect to section 4(b) of S. 6 and S. 279, The American Legion supports these provisions relating to the extension of the reporting dates and the termination date of the Vet Center Program, and in the case of S. 279, an extension by 1 year of the date by which the Public Law 98–160 study is to be completed.

The American Legion is mandated to support the elimination of the transition date, and to support a continuation of the program contingent upon a plan wherein decisions are made on a case by case basis as the utilization of services in the Vet Centers diminishs.

That completes our summary.

Chairman **Cranston**. Thank you very much.

Mike, I apologize for the fact I am going to have to leave in about 30 seconds.

Mr. **Leaveck**. Sure.

Chairman **Cranston**. But Jon Steinberg will be here.

[The prepared statement of Mr. Egan and Mr. Sommer appears on p. 195.]

STATEMENT OF MICHAEL R. LEAVECK, LEGISLATIVE DIRECTOR, VIETNAM VETERANS OF AMERICA, ACCOMPANIED BY RICHARD F. WEIDMAN, DIRECTOR OF GOVERNMENT RELATIONS; AND THOMAS A. SHERWOOD, DIRECTOR OF HEALTH POLICY AND PLANNING

Mr. **Leaveck**. Thank you, Mr. Chairman.

On behalf of the Vietnam Veterans of America, we want to thank you for this opportunity to appear here today and to present our views on the fiscal year 1988 VA budget, as well as some very important issues that are before this committee, and those being the future of the Vet Center Program and the issue of the homeless veterans.

Chairman **Cranston**. You know my deep commitment on all those issues.

Mr. **Leaveck**. We certainly are aware of that, Mr. Chairman.

Just a few general remarks about the budget, and I would like to touch on a couple specifics. And it is too bad that Senator Simpson had to leave also because I think he would be one of the only others in the room that would agree with us. But we do believe, at the outset, generally, that $27 billion is an adequate amount of money to fulfill the mission of the Veterans' Administration. At the same time, we don't believe that enough consideration is being given to prioritization within that $27 billion budget. We believe that there are very serious issues in the area of service-connected health care, not being adequately addressed. And we speak more specifically and more directly in our written testimony to those issues. And we would appreciate it if the whole statement could be included in the record.

Mr. STEINBERG. The full statement will be.

[The prepared statement of Mr. Leaveck appears on p. 224.]

Mr. LEAVECK. Thank you.

Just a couple of general remarks. When this budget was unveiled by the Veterans' Administration, it was heralded by the VA as a budget that redirects and refocuses a lot of resources on service-connected health care. We have done a fairly detailed examination of the budget. We really do not see much reality behind that rhetoric. We see, for instance, the elimination of nearly 3,000 positions in the Department of Medicine and Surgery, but there is really no answer beyond "well, the resource allocation system will take care of how those cuts are to be implemented," when we asked what specific health care services will be cut back as a result.

Some of those specific items that we are most concerned about within the budget, No. 1, the use of contract health care money for other purposes. We believe very much—and I believe that sentiment is echoed by the chairman and the ranking minority member—that those contract health care moneys could be very efficiently used to provide care for the chronically mentally ill veterans who often wind up as contributing to the homeless statistics.

We very vehemently oppose the addition of the 1.5 percent user fee on the Home Loan Guarantee Program. We see that as nothing other than a tax on first-time veteran home buyers.

We are also very concerned that the Veterans Job Training Act, which has been a very efficient program of employment development for Vietnam veterans and disabled veterans, be continued. And as we mentioned, we would very heartily support, work very hard on behalf of a supplemental appropriation and an extension of authority.

We are concerned at the time when there has been a lot of focus on the homeless veterans that the Veterans' Administration fiscal year 1988 budget proposes a further reduction in veterans benefits counselors. We believe that that particular position within the Veterans' Administration is very critical in providing the needed informational outreach in veterans claims development services that are needed for a lot of homeless veterans.

I might remark that one of the homeless veterans on the panel this morning, Mr. Moses, apparently up until recently, was not adequately compensated for his service-connected disability. And we believe that as a first step in things that the Veterans' Administration concurrently do with no further authority is to get some information out to the homeless shelter managers and administrators.

I am really getting a little ahead of myself. I really wanted to direct some rather intensive remarks at the future of the Vet Center Program.

Last week, the Center for Disease Control released a study that showed over the experience of the Vietnam veteran since his or her return home there has been a 17 percent higher mortality rate, mainly due to external causes, suicides, homicides, motor vehicle accidents. And I think the general attribution, even by CDC, is that these are really problems, deaths, related to post-war trauma, emotional problems that resulted from the aftermath of Vietnam.

The point was made that this was mainly experienced in the first 5 years after their return home. And some people have interpreted the data as saying, well, that problem is behind us.

We would rather suggest that the reason for the dropoff in the mortality rate is not that the problem is behind us, it is that merely obviously, that at present veterans are not dying from those causes in as high rates.

And that, further, we would suggest that the reason for the dropoff in mortality rates is because there are more adequate intervention and counseling services now available than there had been, since the inception of the Vet Center Program and in some of the earliest community-based efforts that Vietnam veterans themselves founded.

While we support the general provisions of S. 279 and section 4(b) of S. 6, we would like to point out that while the RTI study is a very, very important study in assessing the dimensions and the extent of the problems of readjustment and post-traumatic stress among Vietnam veterans, it is not the definitive word as to the continued need for the Vet Center Program.

We believe that current client loads statistics, especially new clients appearing at Vet Centers, is much more revealing and much more important. It should be given a lot more weight in the determination of what the future of the Vet Center Program should be.

We should also—and I should note at this point we are quite distressed to hear some of the preliminary results of the GAO investigation that Senator Murkowski has called for into the client load of the Vet Center Program and the actual effectiveness of the Vet Center Program. We would be very interested in seeing those results once they are formalized and published as soon as possible.

One thing we would like to caution the policymakers and the members of this committee about in the consideration of what the future of the Vet Center should be, is we really should not fall into traps of rhetoric. For instance, when a Vet Center locks its doors, turns out the lights, pulls the phone out, and removes the staff, that Vet Center is closed. It is not relocated, even if the personnel are available at a VA medical center down the street. And whether or not you support the closure of Vet Centers and the relocation of staff, you really have to be much more precise with that terminology. We are talking about closing Vet Centers. And at some point, you know, we are amenable to discussing a redefinition of the mission of Vet Centers, closing some, which are no longer needed, and perhaps relocating them, maybe not necessarily into the nearby VA medical center, but to an area where they are needed. That is really relocating the Vet Centers.

With regard to the question of the homeless veteran, we support particularly with the amendments that the chairman has offered, we support fully the provisions of S. 477. We were a bit concerned about some of the impacts that might have been felt on the VA home loan revolving fund, but we believe that those issues have been addressed.

But we very much would like to strongly emphasize once again that the problems of veterans who are homeless, it is not purely a problem of not having a shelter, not having a roof over their heads. It is really a configuration of problems which can be impacted by the provision of informational services, claims development, and supportive services. And we are very pleased that even though the VA has the current authority to provide those kinds of services and intensify outreach with regard to homeless veterans, we are very pleased to see that kind of mandate and that kind of emphasis in S. 477.

And with that, I will close my remarks. I ran out of time a while back, and we will make ourselves available for questions.

Mr. STEINBERG. Thank you, Mike, and thank you, John. And, again, I know Senator Cranston regrets very much that he had to leave a few moments before the VVA's testimony was concluded.

He asked me to clarify with you, Mike, one point that I believe you already did clarify at the very end of your statement, and that is, the sense of the question that he asked Paul, in terms of the amendment to S. 477. I believe you indicated that if such an amendment were added so as to require that any detrimental effect to the loan guaranty revolving fund would be minimized from the disposition of these hard-to-sell foreclosed properties for use as shelters, that would take care of your concern expressed in your testimony.

Mr. LEAVECK. That's correct.

Mr. STEINBERG. Paul, can I go back to that question for one moment with you? If you were satisfied on that issue in terms of a possible increase in the veterans' liability with the amendment that the Senator outlined to you, would that take care of the concern you expressed about section 2 of the bill?

Mr. EGAN. It is tempting to say yes. Obstensibly, the answer is yes. But there's two sides of the coin. If you take care of the veteran's liability by either forgiving the loan or by forgiving the——

Mr. STEINBERG. Why did you say take care of it? I said if there were no problem with the veteran's liability possibly being increased by virtue of this disposition of the property, which is, I thought, the issue you were proceeding to raise.

Mr. EGAN. That's correct.

Mr. STEINBERG. If that could not occur, would that remove the concern that you have about section 2 of the bill if it were amended as Senator Cranston described his intention to amend it?

Mr. EGAN. That, in addition to the protection of the revolving fund. Yes, that would remove our objection.

Mr. STEINBERG. Well, as to the amendment that he outlined, there are two possible ways of expressing it. One is that there would be no significant financial detriment to the fund, and the other is that, as to any property there would have to be a wash, in the VA's estimate, before they made that property available.

So, in either case, the fund would be either totally protected or virtually totally protected.

Mr. **Egan**. I am glad you clarified that.

Mr. **Steinberg**. I wonder if we could just for a moment ask Mr. O'Toole, who I believe is still here, if he could comment on the issue that The American Legion has raised regarding the possibility that a veteran's liability could be increased in the event that a hard-to-dispose-of property were transferred by the VA under this provision?

This is Mr. Robert O'Toole, who is the Director of the VA Loan Guarantee Service.

Bob, why don't you sit down for a moment?

Mr. **O'Toole**. The veteran's obligation to us, Mr. Steinberg, is established at the time the foreclosure action takes place. Any purchase price that we obtain for the property after we acquire that, normally it has no effect on the amount of the veteran's debt. If, fortunately, we can sell a property very fast at a substantial profit over and above our cost, we will apply that to the veteran's obligation. But the way I understand it, we are talking about properties that have already been on the market for some time, and the chances of us making a substantial profit over and above what we pay for the property is pretty minimal.

Mr. **Steinberg**. If you made such a substantial profit, would that not go to decrease rather than increase the veteran's liability?

Mr. **O'Toole**. That's right.

Mr. **Steinberg**. So that I believe what you are telling us is that you do not foresee any possibility that the veteran's liability could be increased by virtue of this provision.

Mr. **O'Toole**. That's right.

Mr. **Steinberg**. All right.

Would you provide a fuller description of the situation that could occur for the record, please?

Mr. **O'Toole**. Sure.

Mr. **Steinberg**. Tony?

[Subsequently, the Veterans' Administration provided the following information:]

A veteran's debt is established when a GI home loan is foreclosed and the VA pays a claim under loan guaranty to the loan holder. The amount of the veteran's debt is the total due on the mortgage less the net value of the property at the time of foreclosure or our maximum guaranty, whichever is less. In no case is the debt more than the amount of the guaranty at the time the loan was made.

In about 80 percent of all foreclosures, the VA purchases the property from the holder for its net value. The acquired properties are subsequently resold. The resale price, adjusted for acquisition, management, resale and administrative costs, is then compared with the amount paid for the property. If a gain was made, the veteran's debt is reduced by that amount or eliminated. Currently, an adjustment is made in approximately 10 percent of the sales transaction.

In theory, as long as the VA retains ownership and offers the property for sale, there is a possibility the property will sell for a net gain and the veteran's debt would be adjusted. However, when the VA retains ownership the possibility also exists for VA to take a loss greater than the initial guaranty.

In practice, experience tells us listing prices are reduced, and the possibility of making a gain on the resale of one of our properties decreases with the length of time the property remains in the VA's inventory. Therefore, when properties are disposed of after being in VA's inventory for 12 months or more, it is unlikely the veteran's debt will be adjusted.

Mr. **Principi**. Yes. I would like a clarification.

If a veteran owes $20,000 because a home that he owned went into foreclosure, and you subsequently turned that property over to a charitable institution for the homeless, what would the veteran's liability be? Would it remain at $20,000 or would be it relinquished?

Mr. O'Toole. It would remain at $20,000. In no case would it be higher than the amount of the guarantee.

Mr. Principi. But in no case would it be lower unless the VA relinquished the debt because they now have given away the property and it could not be sold.

Mr. O'Toole. That's right.

Mr. Principi. If you have another veteran who is also indebted to the Veterans' Administration for $20,000 because of a foreclosure, and through an auction, or some other means, that property was sold on the market for an amount equal to or greater than the debt owed to the Veterans' Administration, would his debt be relinquished?

Mr. O'Toole. No. There would be some instances, a very small number of instances, where if we sold the property for substantially more than we paid for it, and we covered all our costs for the period of time that we have owned it, we will reduce the amount of the debt by that amount of the property.

Mr. Principi. It is the profit over and above your costs?

Mr. O'Toole. Over and above our costs. I know of no instance where that would completely wipe out the debt. It would be a very unusual situation where the entire debt would be wiped out.

Mr. Principi. Could it be wiped out in part?

Mr. O'Toole. The amount of the debt would be reduced by the so-called profit over and above our costs.

Mr. Principi. Thank you.

Mr. Steinberg. I think this is obviously a very important point, and I think we would both appreciate a fuller written explanation of it, hopefully, rapidly.

Mr. Egan. I might add, Mr. Steinberg——

Mr. Steinberg. Excuse me one second, Paul.

What you were suggesting previously, as I understand it, was that with respect to properties that were in inventory for, let's say, 12 months or more, which I believe is the testimony of the Chief Benefits Director in terms of those that you would even consider using, you believed it was very rare that there would be a sale of such a property for more than your costs, that is, that there would be a sale of the property for a price that would result in the veteran's liability being reduced. Do I understand that correctly?

Mr. O'Toole. That's right.

Our feeling is that if we have had the property in our inventory for 12 months or more, it has gone through the normal efforts that we make to dispose of the property, and we have not been able to do that. And during that time, we have reduced the price that we have asked in order to move it. If at the end of that 12-month period we have not sold the property, the chances are that the price that we were asking at that time is substantially below the amount that we started at, which was close to what we paid for it.

Mr. Steinberg. And if the law specifically provided that you could not transfer a property where you estimated that there was any chance that a purchase price could be achieved which would result in a reduction of the veteran's liability, that would have no effect, given the projection that you just made, on the availability of houses which the VA could use for this purpose.

Mr. O'Toole. That's right.

Mr. Steinberg. So what we could do is in the law specifically provide that, as a condition for selecting a property to be made available, in addition to this wash issue that we described, and, of course, that the property was hard to sell, that it was anticipated that there was no likely commercial market for it; then they would have to make a determination that there would be no market price which could have reduced the veteran's liability. Then, that issue, it would seem to me, would be effectively removed from all of our concern.

Mr. Principi. Well, Jon, I would like to continue this point for one second longer.

Mr. Steinberg. Tony, I'm sorry. Go ahead.

Mr. Principi. It seems to me that if I am the veteran in this hypothesis that we presented to you, and the VA has given away the property securing the debt that I owe, that I certainly would have recourse, either through the courts or somehow, to have that debt relinquished if the VA had no way of selling that property. So I fail to see how this kind of protection would do anything for the veteran.

Mr. Steinberg. I believe what Mr. O'Toole said is that, once a property has been held in inventory for 12 or more months, there would be no possibility of relinquishment of the veteran's debt under any set of circumstances that would have existed.

The veteran's debt, if the house remained in inventory, would stay at exactly the level at which it was established at the time of the foreclosure and the acquisition by the VA.

Mr. Principi. But the housing situation in a place like Houston in 1987 is very, very dim, particularly regarding the resale market for housing. But who is to say in 1988 or 1989, when the oil prices skyrocket, and the value of housing in places like Houston and Anchorage go again through the roof, that a veteran could not have that house resold and have part of the debt relinquished? I think we are taking an awful chance here, and perhaps we can obtain some further clarification on that.

Mr. Steinberg. Do you think that you can do that, Bob, and try to get a paper by tomorrow afternoon to both our side and to the minority?

Mr. O'Toole. We will certainly try.

Mr. Steinberg. All right.

It is obviously an important point. The VA has endorsed this. The Administrator was quite forthcoming in saying that he would like the authority provided in section 2. And that is the administration's position. I think that Tony has raised, and Paul has raised, an important point in terms of adversely affecting the veteran's future liability, and we ought to try to address that in some fashion if that can be done.

Paul, I am sorry.

Mr. Egan. Thank you. There is, just departing from the question of the veteran who's foreclosed in his liability. What all this discussion certainly suggests is one additional reason why it is critically important for the VA to quickly market these properties. And I would simply remind the committee that it was 2 years ago that there was a provision in a piece of health legislation that would have provided for contracting out of some of the more difficult properties to market. That provision, as you know, did not become law, but the interested contractors weren't much—didn't really care where the properties were or how difficult to market them.

Since that time, the VA, working with the National Association of Realtors, I understand, has put together some sort of pilot program which was designed to market these properties, and I would be very interested to know what success that project has been.

Mr. STEINBERG. We will ask a written followup question on that to be included as part of the record of this hearing.

I might say, Tony, in a brief response, when you said, "who's to say," we do have provisions in the law right now that require the VA to make an estimate, when deciding whether or not to bid for the property or to pay off the guarantee, as to what they anticipate. So, of course, one could take the position that it might as well acquire all the properties and wait for the values to go up. Obviously, this committee, as well as Senator Murkowski and yourself, did not take that position previously. So at some point, I suppose, we have to be bound by reasonable estimates; but let's see what Mr. O'Toole and Mr. Vogel and the general counsel can come up with on that.

Let me conclude and thank you all very much for your patience and bearing with us for so long, and your excellent prepared testimony on behalf of both The American Legion and the Vietnam Veterans of America.

Senator Cranston asked me specifically to thank all of the VA officials that remained with us for this hearing. He has always had a feeling that it is not very good policy when the Administration leaves after their testimony. And today we have had a very large number of VA officials remaining.

So, I would like to thank Tom Harvey, and John Gronvall, and Jim DeWire, and Susan Livingstone, and Robert Schultz, and Grady Horton, and Art Blank, and Connie Hoffman, and Burt Talcott, and Bob O'Toole, and Mary Leland, and Alan Jones very much for the courtesy that you showed to the witnesses that followed you and to the committee for remaining here. We appreciate it very much.

Finally, let me announce on behalf of Senator Cranston that the hearing for tomorrow morning will begin at 10:30 and not at 11:00. And we will be in touch with the witnesses who were scheduled at that time to advise them.

Thank you all very much. We stand in recess until 10:30 tomorrow morning.

[Whereupon, at 3:50 p.m., the hearing was recessed, to reconvene at 10:30 a.m. on Thursday, February 19, 1987.]

VETERANS' ADMINISTRATION FY 1988 BUDGET, THE VET CENTER PROGRAM, AND HOMELESS VETERANS ISSUES

THURSDAY, FEBRUARY 19, 1987

U.S. SENATE,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The committee met, pursuant to recess, at 10:43 a.m., in room SR-418, Russell Senate Office Building, Hon. Alan Cranston (chairman of the committee) presiding.

Present: Senators Cranston and Rockefeller.

Chairman CRANSTON. Good morning. I appreciate your waiting my tardy arrival. I had another session of another committee that I had to be attending.

This hearing on the Veterans' Programs Budget, S. 477 and S. 279, and section 4(b) of S. 6 will now resume. There will be no opening statement, since we merely recessed the hearing yesterday. Copies of my opening statement from yesterday are available at the press table.

Let me say to today's witnesses that I regret our having to change the schedule around so much, and I greatly appreciate your cooperation. There have been an incredible array of different events, requiring my time and attention.

Our next witnesses are our panel of representatives of four veterans' organizations. You are all already at the witness table. The panel consists of David W. Gorman, Assistant National Legislative Director for Medical Affairs, Disabled American Veterans; R. Jack Powell, Executive Director, Paralyzed Veterans of America; James N. Magill, Director, National Legislative Service, Veterans of Foreign Wars of the United States; David J. Passamaneck, National Legislative Director, AMVETS; and Dr. Donald R. Custis, Special Medical Consultant, Paralyzed Veterans of America. We welcome you.

I believe you have collectively agreed to yield 5 minutes to Dr. Custis to present your independent budget. The committee will match your 5 minutes for Dr. Custis, and round off the time of each organization upward to 4 minutes. We will have lights here, so you will know when your time is expired. Please try to adhere to it, because again, we have limited time today.

Thank you very, very much. Who is going to begin?

STATEMENT OF DAVID W. GORMAN, ASSISTANT NATIONAL LEGISLATIVE DIRECTOR FOR MEDICAL AFFAIRS, DISABLED AMERICAN VETERANS

Mr. GORMAN. I'll begin, Mr. Chairman, if I may. Realizing the time constraints of the committee, I'll try to briefly discuss the three issues on which our testimony has been requested.

First, the provisions of S. 279 and section 4(b) of S. 6, introduced by you as the Veteran's Health Care Improvement Act of 1987. We view both of these measures to provide for the delay, by a year, of the due dates of the various mandated reports, regarding the readjustment counseling service, as well as provide a similar delay for the transition period of the Vet Center Program.

In view of the anticipated delay in the completion of the various reports that must precede the transition process, we do not object to the enactment of these provisions.

I would, however, like to again relay our strong feeling that Vet Centers must, in the near future, complete that transition process, as mandated by current statute.

We feel this to be in the best interests of both the VA and, more importantly, the Vietnam veterans.

With respect to S. 477, the DAV applauds you, Mr. Chairman, for your concern and your timely introduction of this measure, which impacts not only on veterans and the VA, but, in fact, all of society. It is our belief that the VA has, and will continue in the future, to provide significant assistance to homeless veterans, via existing programs and authority.

This assistance is predominantly in the form of benefit counseling, health care services, and monetary entitlements, such as nonservice-connected pension benefits. If there is a need to provide temporary shelter to certain veterans, then we feel that the VA domiciliary and the State Veteran Home Program would, perhaps, be the most logical and expeditious way to provide such shelter.

As concerns the proposed VA budget for fiscal year 1988, we find the proposed reduction of 296 employees from the Department of Veteran Benefits totally unacceptable, when one considers that nearly 5,000 employees have been lost to the Department since 1980.

The Administration's request for construction funds fails to include any new funding for new nursing home care bed construction. While we support full funding of the VA's request for construction programs, we are concerned about their ability to meet, what we consider to be, the pressing demands on the health care system, as concerns much needed renovations and new construction.

Mr. Chairman, although the budget requested for the Department of Medicine and Surgery is up by some $414 million, we remain very concerned about the continued viability of the system and the VA's ability to continue to provide quality health care services to entitled veterans.

We adamantly oppose the prospect of a $75 million rescission of fiscal year 1987 funds. We oppose the proposal of treating 113,000 less veterans as outpatients, as well as treating 14,000 less veterans on an inpatient basis. We approve a 1 percent productivity increase as it is nothing more than an arbitrary 1 percent reduction in health care funds.

In an era of increasing demand for VA health care services, we are disturbed by the VA's continued violation of law, by operating less than the mandated 90,000 hospital and nursing home care beds. Certainly, we are not in favor of the effort to virtually eliminate beneficiary travel funding.

We do support full funding, with the VA's request, for medical and prosthetic research funds, but remain discouraged by the large disparity between the two accounts. Because we view rehabilitation research as a vital program, and because this type of research of unlikely to be pursued elsewhere, we suggest additional funding of at least $3 million would be appropriate.

Mr. Chairman, the budget proposes many legislative proposals. Certainly, we support the cost of living adjustment in compensation and service-connected death benefits. However, we oppose any attempt to index these benefits.

We also oppose the proposal to restrict veterans' eligibility for the VA plot allowance. Likewise, we oppose the proposal to increase the loan guaranty users fee from 1 percent to 2.5 percent, as well as removing the Administration's authority to set the interest rates on VA home loans.

In our view, these proposals would be sufficient to effectively destroy this valuable program.

Finally, Mr. Chairman, I wish to thank you for raising the issue of the status of the VA's proposed changes in the criteria they employ when considering service-connected hearing loss, during yesterday's hearing with the VA.

It is obvious to us that the VA's own documents and analysis of this issue dictate major changes are, indeed, warranted and are long past due.

Thank you very much. That concludes my testimony.

Chairman Cranston. Thank you very much.

[The prepared statement of Mr. Gorman appears on p. 258.]

STATEMENT OF JAMES N. MAGILL, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. Magill. Thank you, Mr. Chairman, for the privilege of appearing before this distinguished committee to present the views of the Veterans of Foreign Wars.

The President has proposed a $550 million increase over last year's budget. However, the President is also proposing a $75 million cut of fiscal year 1987 funds, which the Congress has already agreed to spend on VA programs. Our first recommendation with this budget, Mr. Chairman, would be for this committee and the Congress, when presented with the rescission message, to reject it.

Most of the $75 million would come from the VA's Department of Medicine and Surgery. In submitting the administration's proposal, it was suggested the impact would be more greatly felt by category C patients. The VFW cannot visualize how these particular patients could be the only ones targeted. We predict that all categories will be affected, and this certainly includes category A patients.

The President's budget proposal would also scale back VA medical care, by reducing VA employee levels by approximately 3,810. Of course, this reduction in staff will only lead to a lesser number of patients being treated.

The VFW is also concerned over the VA's $68 million funding level for the beneficiary travel account. We do not believe this amount will even come close to meeting the needs of our veterans.

With respect to major construction projects, the President is requesting an increase of $36.9 million over fiscal year 1987. While the overall budget does show an increase, we are disappointed that the replacement and modernization activity shows a $102 million reduction from the fiscal year 1987 level.

Several legislative initiatives have been proposed by the President in his budget recommendations. One such proposal would standardize the cemetery plot allowance to that of the burial allowance. We believe this innocent sounding term is nothing more than another reduction in VA benefits, and the VFW opposes it.

The President's fiscal year 1988 budget is recommending two legislative proposals which would, in our opinion, severely undermine the very successful VA Home Loan Guaranty Program. One such proposal would increase the user fee from 1 percent to 2.5 percent, and, of course, we are opposed to that.

We are also opposing the repeal of the Veterans' Administration's authority to establish a home loan interest rate. We believe departing from the current policy would be a serious mistake and detrimental to the veteran's best interest.

Another area of concern is the administration's recommendation to index compensation benefits to the annual change in the CPI. We believe this action would, in all likelihood, reduce congressional review of the program. And we oppose that.

In our invitation to appear at this hearing, you also asked for our views on several pieces of pending legislation not associated with the fiscal year 1988 budget. Section 4(b) of S. 6 and S. 279 would remove the requirement for transition by September 30, 1988 of the Readjustment Counseling Program from a program primarily of storefront services, to those delivered primarily through VA health care facilities.

In view of the fact that the post-traumatic stress study has not been completed, we would have no objection to that extension. However, we also believe that this was primarily a temporary program—that is what it was initially for—and we would urge the Congress to, once again, look at it, and once and for all decide the fate of the Vet Center Program.

Chairman **Cranston**. I'm afraid I'm going to have to ask you to terminate swiftly now.

Mr. **Magill**. I'm sorry for taking too much time.

As far as the Home Loan Guaranty Program. Your proposal in S. 477—we do not support at this time the giving away of VA foreclosed properties. However, we do support your provisions which would identify the homeless veteran out there.

That will conclude my statement.

Chairman **Cranston**. Thank you very much.

[The prepared statement of Mr. Magill appears on p. 271.]

STATEMENT OF DAVID J. PASSAMANECK, NATIONAL LEGISLATIVE DIRECTOR, AMVETS

Mr. PASSAMANECK. Thank you, Mr. Chairman. If you please, I'll go next.

AMVETS appreciates the opportunity to present its views on the administration's proposed budget for the Veterans' Administration for fiscal year 1988; S. 6, Veterans' Health Care Improvement Act of 1987; S. 279, Regarding a Postponement of Vet Center Transition Period; and S. 477, Homeless Veterans Assistance Act of 1987.

Although the budget request is nearly $550 million greater than the current fiscal year 1987 estimated requirements, this represents little more than keeping pace with the increasing cost of current services.

Specifically, we oppose the proposed increase in the origination fee for loan guaranty; we oppose the freeing of the interest rate ceiling control by the VA; we definitely, of course, oppose the requested rescission of the $75 million from last year's budget; and, we oppose the indexing of compensation.

AMVETS has been proud to join with the Disabled American Veterans, the Paralyzed Veterans of America, and the Veterans of Foreign Wars of the United States in formulating a detailed, independent budget proposal for the VA Department of Medicine and Surgery, copies of which have been widely distributed to include the members and staff of this committee.

On the matter of S. 6, Veterans' Health Care Improvement Act of 1987, as it affects the VA's Vet Center Program, AMVETS is not opposed to new categories of veterans eligible for counseling care. However, while AMVETS has no current national resolution on the Vet Center eligibility issue, it is, nonetheless, safe to state that we would not tolerate the shifting of scarce VA dollars from veteran medical care to fund other veteran programs within the agency. At this time AMVETS can also support the postponement of the Vet Centers transition period. Let us not be too hasty in moving the Centers to medical centers, or eliminating some, before all the evidence is in and we have had the opportunity to thoroughly examine it.

This postponement applies also to S. 279, as pertinent reports are not available, it would not be in the best interests of the Centers or their clients to transition them at this time.

Lastly, Mr. Chairman, S. 477, Homeless Veterans Assistance Act of 1987, gives us the most cause for concern. AMVETS compliments the leadership of this committee for taking heads-on a most difficult and nettlesome issue. As we see S. 477, it attempts, through the VA, to accomplish a variety of ends with regard to the homeless veteran, from shelter, to employment to benefits, to hospitalization.

There are no studies to tell us, with any accuracy, the numbers of homeless veterans there are in this country. We do not know what era, age, family status, disability, or any other fundamental facts. We only have estimates, and loose ones at that.

Exasperating this situation is the finding that many homeless prefer streetlife, are extremely mistrustful of government intrusion and suffer mental, drug or alcohol related problems. It must also be understood that, at least for veterans, more than just lip service is being done to help them.

The Department of Labor's Office of Assistant Secretary for Veterans' Employment and Training began in 1985 a $250,000, 10-city project, in cooperation with the VA and Social Security Administration, to locate, train, rehabilitate and find employment for homeless veterans. The VA itself has been, and is, actively involved in the homeless veterans issue. And again, many homeless veterans are unwilling or unable to provide the VA with basic eligibility information. For the homeless veteran, the VA offers its multitude of programs: compensation; pension; DIC; VA health care; mental health service; community residential care; domiciliary care; contract alcohol/drug treatment facilities; Vet Centers; vocational rehabilitation programs; home retention programs; VA outreach; and other programs, all costing millions of dollars each year.

As we read S. 477, no additional resources are to be made available to the VA; indeed there are no costs revealed. We cannot believe that the VA is now capable of assuming a massive additional program from nonexistent available resources. And we would oppose the shifting of scarce resources from either the benefit or medical programs to fund a homeless veteran project.

Thank you.

Chairman CRANSTON. Thank you very much.

Mr. PASSAMANECK. Oh, I would request, of course, that the prepared statement submitted by our National Service Director, James Bourie, be included in the record.

Chairman CRANSTON. Yes. In all cases, the prepared statements will be included in the record.

Mr. PASSAMANECK. Thank you, sir.

[The prepared statement of Mr. Bourie appears on p. 378.]

STATEMENT OF R. JACK POWELL, EXECUTIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. POWELL. Thank you, Mr. Chairman. With the fact that our prepared statements are submitted for the record, I would like to use the short period of time that I have to address, I think, what is a synergy to the entire issue that is confronted for the two additional bills and by the budget.

It is often said that you can rob from Peter to pay Paul. And I think that that is the situation right now that the VA borders on. We have robbed from Peter so long, that Peter has no longer the ability to provide for his own sustenance, which is undernourishing him, which is making him incapable of earning money, so there is no longer any reason to even go out and rob him.

What do I mean when I point that out? We have cut drastically, the Department of Veterans' Benefits and its employees, and now we turn around and we see a situation in which we need a lot of them to assist in some of the problems that the legitimate veteran homeless population does have.

We have cut back so much in veterans' health care, that over $0.5 billion worth of technology has not yet been purchased and waits on a list, some of it for a number of years. Not purchasing that technology drives up the pain in patient treatment, and simultaneously drives up the cost of health care.

We have proposed a budget, along with our brethren organizations, that we think is disciplined and controlled, and yet fairly addresses the mandates in law that this committee has been such a big part in passing, that the Nation has agreed to provide to America's veterans.

On the issue of homeless veterans and on the issue of the Vet Center retention, when the Vet Center Program was started, the concept was to establish street facilities, because the type of Vietnam veterans that we wanted to outreach were not perceived as being those who went to the government institutions.

I think that the principal problem with the Vet Center Program is that we have kept it to only working for Vietnam veterans. We have a situation now in which many of the storefront facilities, that are Vietnam Vet Centers, are located in areas in which large numbers of homeless people come. And yet, a veteran of one specific period of war can come into that facility and receive care and assistance and guidance, and a veteran of another period of service is not entitled to do that and has to go across town to an institution.

If one looks at the kinds of services that the Veterans' Administration ought to bring to bear in helping homeless veterans, the disciplines and the talents and the training of the team that one would put together, greatly reflect the talents and the skills that we have put together in the Vietnam veterans outreach centers.

Let's redirect those outreach centers to serving the needs of all homeless veterans, not just those of a specific period in time. And simultaneously, let us recognize that, as most of the experts recognize, the reasons for people being homeless are health care, psychiatric care, substance abuse problems, and employment problems.

In each of those areas, the VA already runs programs and has run programs for many years. The problem is to marry up the program with the homeless veteran that deserves it. But, not only the homeless veteran, with a lot of other veterans, veterans, who we may not qualify as homeless, who are not presently being served.

One of the things that we have heard, as we have gone through the halls of the Senate and of the House, is that veterans programs have done pretty well, and it is time to pay attention to others. That is the attitude of somebody who says, well, the outer body of the car isn't rusty; the transmission may be gone, the engine may be leaking oil, but the outer body looks pretty good.

When we study the Veterans' Administration health care system, we find that the majority of veterans who receive that health care that are non-service-connected, are poor and often indigent. In the city of Chicago alone, 74 percent of the people who receive veterans health care as non-service-connected, are black elderly males at two-thirds poverty level of the income. The synergy of VA health care relieves a burden for public health care, in general. That is why it is so important. We hope that synergism can be addressed by the Senate as we look at the entire 1988 budget.

Thank you, sir.

Chairman CRANSTON. Thank you very much.

[The prepared statement of Mr. Powell appears on p. 286.]

STATEMENT OF DR. DONALD R. CUSTIS, DIRECTOR OF MEDICAL SERVICES, PARALYZED VETERANS OF AMERICA

Dr. CUSTIS. Thank you, Mr. Chairman. It was my pleasure to serve as a consultant, assisting in the design of this independent budget.

And now, to present an abbreviated overview of that document. Mr. Chairman, by previous agreement, this is a 10-minute presentation.

The overriding concern of all veterans today is the preservation of their access to health care. The four major veteran service organizations in this, their first effort at constructing a VA budget proposal, have limited their attention to the health services budget aspects, focusing on veterans' human needs, rather than so exclusively on dollars.

This unprecedented action is predicated on several concerns of such magnitude, that reactive response to OMB budget decisions was felt to be no longer sufficient. Those concerns, in fact, became the major issues influencing the shape and character of this budget.

Listed on this placard are a few examples of such issues. We are all familiar with the Nation's aging veteran phenomenon. Ten years from now, almost 40 percent of all veterans will be over the age of 65. And they will constitute two-thirds of all living males of that age. There is an alarming lag in revamping VA medical facilities and programs to meet changing and growing need.

The entitled veteran category under Public Law 99-272 will require more, not fewer, resources, and a more convincing commitment that is thus far apparent. We challenge the arbitrary budget formulation practices used by OMB, which have annually resulted in forced absorption of uncontrollable cost increases.

Disallowance for full inflation, arbitrary fiscal penalty for predicted productivity increase, incomplete funding for new facility activations, and the imposition of unreal workload projections all fall under this category of favored OMB detrimental gimmicks.

The VA is, in every sense, and integral part of the Nation's pluralistic health care systems. Reductions in Medicare/Medicaid funding and the growth and demand for private uncompensated care, has an impact on the VA system. From those medically indigent veterans who have lost access to private care, it is particularly ironic that, with rapid advancement of costly medical technology, the VA unfunded equipment account, in which the backlog considerably exceeds $0.5 billion, remains a favorite target for reprogramming money to meet other cost absorptions.

Obsolete equipment seldom provides for quality medical care. In the construction of the budget, a number of uncontrollable items are encountered. And listed on this placard are such items, the cost of which must be accommodated and added to the previous year's final appropriation, just to maintain current services for the coming year, unless, of course, they are to be absorbed.

Based on recent planning documents by the VA and the Congressional Budget Office, which addressed the impact of the aging veteran, we have selected targets for the year 1990, which we felt to be most reasonable and conservative. This budget attempts to move toward those targets, supported through the next three annual budgets.

The proposed fiscal year 1988 goals are shown in the middle column. One can see here, on the next placard, how the VA medical care budget bills from the 1987 appropriation to our fiscal year 1988 request costs to just keep services current in fiscal year 1988 requires substantial increases. Note that of the $1.2 billion change from 1987 to 1988, only $368 million is for new initiatives.

Incidentally, requested fiscal year 1987 supplemental funds in the President's budget are approximately one-half of what is necessary. The remainder is to be absorbed. The President's fiscal year 1988 budget for DM&S falls short by some $450 million of providing for current services, and calls for a personnel cut of at least 6,000 FTE.

Our initiatives are listed on the next two placards. Funds shown here will provide for an additional 21,000 inpatient stays and 400,000 outpatient visits. We propose re-establishing and fencing a separate account to provide continuing education to some 100,000 professional employees, and increasing the funds to augment physician house staff in specialties critical to the VA. The ADP initiative supports the multiyear clinical computer acquisition program. The President's budget reduced that funding by $38 million from DM&S's current estimate.

Patient travel of $90 million replaces moneys lost in the fiscal year 1987 budget. The President's budget proposed to cut by 50 percent what was spent for patient travel in 1985. We also recommend fencing that beneficiary travel portion for out-of-pocket reimbursement.

The net cost for all extended care programs is $108 million, and represents the major focus of all our initiatives. The following additions are provided for: 635 VA nursing home beds through construction and conversion; 2,981 community nursing home beds; 8 hospital-based home care teams; 22 additional adult day health care centers; 15 additional community residential programs; 20 geriatric evaluation units; 3 additional GREC's; 40 respite care; and 20 hospice care programs.

The President's budget includes only one of these extended care initiatives, and that at a very reduced level, namely a modest increase in community nursing home census.

Next, this is the same type of presentation for the medical research budget account. Initiatives programmed here are modest. An additional $4.6 million for biochemical research, $3 million for rehabilitation engineering research, and an additional $2 million for health services research and development. The largest increases in this account are, again, the uncontrollables.

There are only three initiatives in the medical administration account. Funds to cover a recommended management consultant study for the Department of Medicine and Surgery, Central Office, especially to determine a proper organization and a proper staffing level. Six million dollars to reactivate the VA health professional scholarship program for nurses and other scarce specialty technicians, and funding for the development of the congressionally mandated quality assurance model.

Finally, this is the bottom line for all DM&S accounts. We are recommending an increase of $17.6 million for State veteran home grants to accommodate those projects already processed and ready for funding.

I would like to reiterate, Mr. Chairman, that the major portion of all cost increase is in uncontrollable items, in the amount of $860 million. This year's VSO proposed budget does not address the VA's construction programs. We are constrained, however, to recommend continuation of VA nursing home construction for fiscal year 1988. This, in contrast to the President's budget, which provides for no additional nursing home construction.

A full list of all differences between our budget and that of the President, has been provided for the record.

I thank you, Mr. Chairman.

[The prepared statement of Dr. Custis appears on p. 304.]

Chairman CRANSTON. Thank you very much, Don. That is a very fine constructive statement. I congratulate you on completing it in less than 10 minutes, also.

I appreciate, very much, your four organizations taking the initiative to collaborate on an independent budget presenting an alternative to the administration's proposal. Your cooperative effort has given us valuable insight into the concerns and priorities of a significant portion of our Nation's veterans. So, I congratulate you on the accomplishment of a very impressive task.

I particularly would like to highlight, at this point, your strategy of focusing on noninstitutional innovative treatment methods, which address the problem of reducing the cost of care, while providing the most appropriate level of care. I plan to follow up on a series of these recommendations in the context of my proposals next Tuesday, for the committee's budget views and estimates.

Don, in the independent budget, you allocate $150,000 to MAMOE for a management study of central office staffing and organization. That figure seems quite low. For example, the Booze-Allen study of the VA construction process cost about $1 million. How did you arrive at that $150,000 figure,

Dr. CUSTIS. By the seat of our pants, Mr. Chairman. [Laughter.]

We gave a lot of thought to staffing in central office, based on the fact that our friends there are telling us that they simply can't get their work done. That ceiling in central office has been reduced from 850 to something in the order of 580. And it is also apparent that in that reduction there has been an imbalance in office responsibility or staffing for various responsibilities.

Rather than our taking on, or presuming to identify what can be done to correct this, we thought the better option would be to recommend the hiring of a professional consultant to study the problem. We really, I suppose, we were trying to be responsible and conservative in picking a number on the low side. Although, I would not think that it would take a great deal of effort to accomplish this purpose.

Chairman **Cranston**. Given your experience, don't you think the $150,000 is probably pretty low, or do you really think you can do it with that figure?

Dr. **Custis**. I think it is probably low, considering what the costs are. On the other hand, I think there are certain people available that could do it for less than that.

Chairman **Cranston**. Well then, you better get those people. [Laughter.]

According to the VA's budget documents, Don, in fiscal year 1986, spending for beneficiary travel was $107 million. Are you seeking $140 million for fiscal year 1988 for the travel expenses for which $107 million was spent in fiscal year 1986?

Dr. **Custis**. We were concerned by the fact that the President's budget calls for less than half of that $107 million figure. And, we thought a reasonable compromise would be $90 million.

We were also concerned that, whereas it never before in my experience had been the custom, to combine interfacility travel that is really the responsibility of individual hospitals, to combine that with the travel for out-of-pocket reimbursement for individual patients coming to VA facilities. Suddenly, those funds are now comingled, and we think the individual veteran, in his out-of-pocket costs, will suffer for it.

We recommend that that portion, so-called "benny travel", be fenced and not used for interfacility travel.

Chairman **Cranston**. What is the total you are recommending for beneficiary and interfacility?

Dr. **Custis**. The total for the two, I believe, is $90 million.

Chairman **Cranston**. $90 million.

Dr. **Custis**. And, I think we identify at least $40 million of that for fenced benny travel.

Chairman **Cranston**. I have, now, a question for all four organizations.

On page 5 of Dr. Custis' statement describing the independent budget, the point is made that as category A veterans learned of their entitlement to VA inpatient hospital care, the number of them seeking such care, likely, will increase. And that as more public programs and private hospitals learn of this new entitlement, they will increasingly be sending these veterans to VA hospitals.

Will each of your organizations regularly monitor the resulting increase in demand for inpatient hospital care, and keep this committee informed of what you learn? Can you each do that?

Mr. **Magill**. Yes sir.

Mr. **Powell**. Senator, if I might respond, just a moment. PVA was involved in a 2-year long study we called "Actions and Interactions", copies of which have been provided this committee. In doing that, we compared certain proposals for reducing VA health care in its delivery, and attempted to assess the capability of the private sector to provide. In the process of that study, Public Law 99-272 came along.

We had an opportunity to talk with the Medicaid directors of a number of States. Each of them did, in fact, when learning about Public Law 99-272, their eyes lit up, and said that they were going to start sending. We know that the State of New York, last year, passed a law that now requires all Medicaid recipients to be questioned as to their veteran's eligibility. We will certainly do it, but the record is already somewhat clear, sir.

Chairman Cranston. Thank you. This question is for the DAV. David, in your written testimony, you raise the issue of the status of the VA's proposed regulations revising the disability rating schedule with respect to hearing loss.

I brought this matter up with Mr. Vogel at the hearing yesterday, and he informed us that at present, the VA and OMB are in discussions regarding the significance of the proposed regulations, and the consequences of implementing them. Mr. Vogel also promised to supply the committee with a full accounting of the course of events, from the time the VA submitted the proposed regulations to the OMB to the present, including what OMB's position is and what the VA's response to it is.

I would be pleased to share the results of this report with you as soon as we receive it.

Mr. Gorman. I would appreciate that very much, Mr. Chairman.

Chairman Cranston. Now back to something for all four organizations. During yesterday's hearing, John Vogel, the VA Chief Benefits Director, in response to my questions, provided information about how the VA would plan to implement the authority in section 2 of S. 477, relating to the VA's transfer of houses out of the inventory for use as shelters.

According to Mr. Vogel, the agency would consider a house for transfer only after it had been in the inventory for 12 months, and the VA had exhausted the normal methods for trying to sell it.

As Mr. Vogel pointed out, there would be little likelihood that such a house would have much commercial value at that point. He also indicated that of the 21,000 houses in the inventory at present, about 2,000 would fit into this category.

In response to my further question as to how many homes might be considered if the transfer authority were limited to houses in which the transfer would not be to the financial detriment of the revolving funding, in other words, would be a wash financially, Mr. Vogel indicated that the number of houses nationwide that might be considered for transfer, would be no more than 300 or 400.

If S. 477 were amended, so as to limit the properties available for transfer in this way, and also to remove any authority for the VA to lease such property, but only to make a complete transfer to an appropriate organization, would you still have a problem with giving the VA discretionary authority to transfer title to such difficult-to-sell properties for use as shelters?

Mr. Gorman. Mr. Chairman, for the DAV's part of that question, I think when we originally outlined, in our written testimony, some organization concerns, that was certainly one of them. Also, the one concern that we had would be to insure, in the language, that the VA is not obligated either pretransfer of that property or post-transferring of that property for any obligation that might come up as a result of improvements to meet code or whatnot.

In direct response to your question, I believe your proposed amendment would alleviate a lot of those concerns. I would like to see the language of it before we offer an official comment.

Chairman **Cranston**. But you are generally sympathetic to the approach, waiting to see the language.

Mr. **Gorman**. Generally, correct.

Mr. **Magill**. Sir, may the Veterans of Foreign Wars' comment on this? It certainly would make the provision a little bit more attractive to us. We still have some concerns, though. One of them would be the liability to the veteran. We would like to see that, as I understand it, there is a question.

Chairman **Cranston**. We will address that issue next.

Mr. **Magill**. Yes. We would like to get that cleared up. And, again, I have to say the same, that we would like to see the language, and then we would be more than willing to comment on it at that time.

Chairman **Cranston**. Jack, Dave, do you have any comment?

Mr. **Passamaneck**. Thank you, sir. First of all, I would like to, once again, make a record of the fact that we have no mandated policy on this question. It is a new question that is facing us, and I can't really speak officially for the organization—no one can. However, I think I can advise or inform the committee that the leadership of the organization, as indicated by my testimony, looks, with great skepticism, on the entire question of the VA becoming involved at all in the homeless problem, whether it affects veterans or anybody else.

Particularly, in view of the fact that we have approximately $75 million of unspent FEMA funds, which have been earmarked for the care of homeless people, and there is legislation or ideas pending for increasing that amount by some $50 million immediately, and eventually by $500 million, and that those requests we regard as, perhaps, questionable and certainly something to be seriously and very carefully examined, in view of the deficit problems and the problems of trying to hold the line on Federal spending.

But, in view of that general picture, our position is that the last place in the world where you should have to worry about spending money on the homeless, is the budget of the Veterans' Administration. And we, frankly, would like to see the VA out of it. We don't want them involved.

Mr. **Powell**. Senator, if I could for PVA. Certainly, the amendment that is being talked about addresses a few of the questions that we have about the program. I would like to reiterate that, as I said in my statement, some of our major concerns is that the problem for the overwhelming majority of homeless, according to all the experts, doesn't appear to be a problem of simply a roof over their head. It appears to be a problem of a proper environment. It appears that the Veterans' Administration, for those that are the veteran population, the legitimate veteran population of the homeless community, could do far, far more than just provide them a few, maybe some percentage of 300 homes on a portfolio, by marrying these folks up with the types of programs that the VA already runs and operates.

The other question that would be a major concern is that all the experts disagree all over the face of the map on the number of the homeless population, who, in fact, are veterans or not. We heard projections of anywhere from 10 percent up to 50 percent, here yesterday. And every expert continuously turned around and qualified his projected numbers and statements.

Frankly, we are somewhat concerned, as well, that some self-serving entities may pop up, merely to acquire properties and, at a later date, sell the appreciated property, which is not unrealistic in certain areas of the country that are presently major contributors to the veterans' defaulted home loan portfolio.

Chairman **Cranston**. Well, let me say that this provision on homes that are presently not in use is only one facet of what we are proposing be done.

Mr. **Powell**. I understand.

Chairman **Cranston**. We are proposing this survey, or mandating one, to find out how many there are who are veterans who are homeless. We know there are many reasons for their homelessness than just a reform cure, and we are proposing other steps be taken. But I, for one, feel very strongly that, when there are veterans of our wars and our services who are homeless, we have an obligation to try to do something about it. And I intend to do something about it.

Are there any other changes that could be made in the provision that would alleviate your concerns in any way, or have you expressed all you have to say on that subject?

Mr. **Powell**. We would like to work with your staff to find some language in talking about a few things that you might possibly be interested in, sir.

Chairman **Cranston**. Fine. One final point on section 2 of S. 477. During yesterday's hearing, some concerns were raised about the possibility of the impact of this provision on the veteran's liability, as you mentioned, to the VA, as a result of the foreclosure.

As I understand the concern, it was that once a house was transferred by the VA to a third party for use as a shelter, there would be no further opportunity for the agency to sell it for such a price that the veteran's liability to the VA could ultimately be reduced.

In response to this concern, Mr. Robert O'Toole, the head of the VA Loan Guaranty Service, expressed a view that if, as I had proposed, a transfer authority were limited to houses that had been in the inventory for at least 12 months, there would be almost no possibility of the VA being able to sell such a property at a price that would yield sufficient revenue to cover the VA's cost of the property, not to mention the costs associated with maintaining the property and inventory for the 12 or more months.

Since both of these costs would have to be covered in full before there could be any reduction in the veteran's liability to the agency, which is fixed at the time of foreclosure, it was Mr. O'Toole's judgment that the possibility on the veteran's liability from such a transfer being reduced would be highly unlikely.

Nevertheless, I will propose that S. 477 be amended to require the VA, prior to transferring any house under the authority proposed in section 2, make a finding that there is no basis for a belief that property could be sold for a price sufficient to cause a reduction in the veteran's liability to the VA. Would such an amendment address any concerns in this regard that your organizations might have? Do you feel that it would?

Mr. **Magill**. Yes sir.

Chairman **Cranston**. Mr. Powell? Yes. And you also do, Mr. Magill.

Mr. **Powell**. I would agree, Mr. Chairman.

Chairman **Cranston**. Mr. Gorman?

Mr. **Gorman**. Obviously, it would improve the situation, from our point of view, yes.

Chairman **Cranston**. Good. Now again for each organization, would you support an authorization being added to S. 477 for a fiscal year 1987 supplemental appropriation of the $30 million authorized, but not appropriated, in fiscal year 1986, so as to keep the VJTA program running through the remainder of this fiscal year, and into 1988?

Mr. **Gorman**. We will lend our full support to that, Mr. Chairman.

Chairman **Cranston**. You would?

Mr. **Magill**. Yes sir. We would.

Chairman **Cranston**. You all would?

Mr. **Passamaneck**. Yes sir.

Mr. **Powell**. Yes sir.

Dr. **Custis**. Yes sir.

Chairman **Cranston**. Also, would you support making an unemployed homeless veteran eligible for VJTA, without having to have an unemployment, unemployed, for 10 out of the 15 weeks, as present law requires? Would you support that?

Mr. **Gorman**. We have no objection to that, Mr. Chairman.

Mr. **Magill**. Yes sir.

Mr. **Passamaneck**. I think that would depend on defining the concept of homeless. It is such a vague thing. How can we distinguish between the homeless unemployed and the nonhomeless unemployed?

Chairman **Cranston**. It will be defined, as S. 477 is amended.

Mr. **Passamaneck**. Well, I would give that conditional answer, yes sir.

Chairman **Cranston**. All right. In that regard, I wish to note that we will be proceeding with such interim legislation, regarding fiscal year 1987 appropriations and homeless veteran eligibility, in the context of S. 477. Senator Rockefeller, joined by Senator DeConcini, myself, and others will be introducing such a bill today, and he will be here shortly to speak about it.

Further, I want to announce that early next month, I will be introducing, along with Senators DeConcini, Rockefeller, and others, legislation to extend VJTA for fiscal year 1988 and 1989, and to make certain improvements in the program to enhance the training completion date.

As you know, the so-called Demand for Care Study, carried out by the VA in 1985, indicated that as many as 35,000 veterans seeking medical care were turned away each month from the VA. At yesterday's hearing, I asked Dr. Gronvall whether a more recent study had been completed and, if so, what it demonstrated.

He told me that the VA, in connection with implementing the means test, has developed a new, more accurate computerized system for tracking applications for care, and calculating the turndown rate. According to him, the turndown rate, as calculated by this new system, is only 100 to 150 veterans per month across the system.

And, in response to my question, he indicated that he believed the new methodology was far better than the prior one. That is a rather startling change in figures. [Laughter.]

Chairman **Cranston**. So what is your reaction to that statement?

Mr. **Gorman**. My reaction, Mr. Chairman, would parallel yours, I think, that it is indeed startling.

Chairman **Cranston**. Do any of you have any evidence to contradict that finding?

Mr. **Gorman**. I would think the methodology used in the 1984 and 1985 Demand for Care Survey, although it may have been flawed, as Dr. Gronvall indicated yesterday, couldn't be flawed to that degree. Also, that is not to say that the current reporting methods used for the means test is not also flawed. There is evidence, that it certainly is.

Chairman **Cranston**. Jim?

Mr. **Magill**. I would have to agree with that. That is quite an astounding figure to come from as high as we were to 150. I certainly would want to question how they came up with that figure, too.

Dr. **Custis**. Mr. Chairman?

Chairman **Cranston**. Yes.

Dr. **Custis**. Starting on page 53 of the independent budget, we addressed this very issue. And we voice our concern that the format and process for gathering data under the means test implementation is highly unsatisfactory, and it is almost calculated to obscure what the true situation is.

For example, there is not captured in these figures any telephone requests for transfer to a VA hospital, which had been captured in the previous surveys. There is also, from conversations we have had with chiefs of staff in the system, an alarming incidence of change in judgment regarding the matter of obviating the need for care, for inpatient care—I mean, to provide outpatient care to obviate the need for hospitalization.

A good many of those patients now fall under their column, not in need of care. We have, in submitting this independent budget proposal, made specific suggestions on how data collection can be improved under the means test format.

Mr. **Powell**. Mr. Chairman, with all due respect to the present Administrator and the present Chief Medical Director, the test or the survey from which the 35,000 veterans turn away figure comes, was the third in a series of tests, conducted under several different chief medical directors and several different administrators. And there has never been a chief medical director or an administrator who has ever agreed with the numbers that his own staff has gone out and found, No. 1.

No. 2, we clearly know that that survey captures both the people who apply for inpatient care, as well as applications for outpatient care and treatment. The largest bulk of turndowns is for outpatient care, an issue that we intend, next week when we get to submit our annual testimony before this committee, to attempt to address, in our belief, that all category A veterans now established under Public Law 99-272, should have an entitlement to outpatient care.

So, what we have here is a number that are theoretically in the 150 a month, a number that are applying for inhospital admission, who are being denied, after we skim off of that the not presently in need of inhospital admission. And that is what a number of hospital chiefs of staff are presently willing to admit, anywhere else except where they can lose their jobs for it.

Chairman CRANSTON. I would appreciate any monitoring that your organizations could do of the turndown rate. Any information you could get to us. Your appraisal of the situation would be very helpful.

Dr. CUSTIS. Conversations we have had with individual directors and chiefs of staff, Mr. Cranston, they are telling us that there is a wholesale turn away of veterans seeking access to care.

Chairman CRANSTON. If each organization would give us a written followup on this point when you feel you have something to add to the record, I would appreciate it. Thank you very, very much for your helpful testimony today.

We now have a panel consisting of Willard Gourley, Vice Chairman, BarclaysAmerican/Mortgage Corporation, Charlotte, North Carolina, and Vice President, Mortgage Bankers Association of America; Shirley McVay-Wiseman, Vice President/Treasurer, National Association of Home Builders; and Stan H. Sabin, Chair, Real Estate Finance Committee, National Association of Realtors.

I want to thank each of our witnesses, now at the table, for your patience and cooperation in connection with the changes we have to keep making in the scheduling of this hearing. I know that it was difficult for me, and I know for you.

I also want you to know that I very much appreciate the thoroughness and responsiveness of your testimony, and especially your organizations' support for the housing provisions in S. 9. I assure you we will be pursuing all of the points you have raised, including the followup questions to the VA and other witnesses, and to the Congressional Budget Office.

I understand, Mr. Gourley, you have to leave shortly for an airplane, so would you please proceed first.

STATEMENT OF WILLARD GOURLEY, VICE CHAIRMAN, BARCLAYSAMERICAN/MORTGAGE CORP., CHARLOTTE, NC, AND VICE PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. GOURLEY. Mr. Chairman, thank you. I will stay here as long as you like.

My name is Willard Gourley. I am Vice Chairman of BarclaysAmerican/Mortgage Corp., and Vice President of the Mortgage Bankers Association of America. Mr. Chairman, I have been working with the VA Home Loan Program since 1946.

MBA appreciates the opportunity to testify on the administration's proposed budget for the Veterans' Administration for fiscal year 1988, especially those proposals affecting the VA Home Loan Guaranty Program.

Since its inception over 40 years ago, the Home Loan Guaranty Program has been an entitlement program for the veteran in return for service in this Nation's Armed Forces. The program was never designed to be actuarially sound. Its purpose is to guarantee a mortgage to any qualified veteran with no downpayment.

We urge the Congress to reject the administration's budget proposal to increase the funding fee from 1 percent to 2.5 percent, effective June 1, 1987. Currently, the 1 percent fee is scheduled to expire on September 30, 1987. The budget proposal would increase the average veteran's home buying costs by $1,125 on a $75,000 mortgage. Adoption of such a steep increase would be contrary to the whole purpose of the VA Home Loan Guaranty Program.

Now is the time for Congress to reexamine whether it wishes to continue the program as an entitlement. It was not designed to be supported by user fees. Congress should decide whether the purpose now is the same as it was 40 years ago, when it was set up.

On another subject, MBA would like to offer its recommendations on ways to reduce the number of no-bids that are occurring in the VA Home Loan Guaranty Program. The VA always had the option in the case of a loan default, of either acquiring the property and paying the lender the loan amount or leaving the property with the lender and paying only the guaranty amount, which we call a no-bid. Prior to 1984 the VA, in almost 99 percent of the cases, acquired the property. A statutory change in the program in 1984 created a formula which forces the VA to enter into no-bids in a significant number of cases. The no-bid crisis, with its attendant losses, has already caused lenders in economically depressed areas of the country to reconsider their participation in the program.

MBA recommends that Congress delegate foreclosure authority to lenders in order to reduce avoidable delays in the process. Accrued interest should not be included in the no-bid formula in cases where there are delays in the foreclosure process. These include delays that are avoidable and caused by the VA after the lender is in a position to foreclose; delays that are unavoidable, such as bankruptcy; and delays caused by forbearance where there is a realistic possibility that the loan can be worked out. In many cases, the inclusion of accrued interest in the calculation tips the scale to a no-bid. We have a discussion of this in our prepared testimony.

Our written testimony also contains a fuller discussion of the questions you asked us to address. I will refer to them briefly.

The scheduled GNMA increase from 6 to 10 basis points effective March 1, 1987, will adversely affect the veteran by increasing costs.

MBA opposes the administration's proposal to sell vendee loans without recourse. This likely will make them ineligible for inclusion in the GNMA mortgage-backed securities.

MBA supports a free VA interest rate.

MBA supports an increase in the maximum loan guaranty amount from $27,500 to $36,000, as provided in the Chairman's bill.

MBA urges that adjustable rate mortgages be authorized for the VA Home Loan Program.

Finally, MBA expresses its deep concern about the homeless, but we have not had an opportunity to examine the Chairman's proposal. We will be back to you with further written testimony.

Mortgage bankers are proud of the fact that we have participated in making a program work that has helped 11.6 million American veterans become homeowners. We appreciate your concern that the program continue to be operated in the most effective way possible.

Thank you.

Senator ROCKEFELLER. Thank you, Mr. Gourley. I just arrived here a few moments ago, and I'm not aware yet if Ms. Wiseman has given her testimony or not.

Ms. WISEMAN. No, I have not.

Senator ROCKEFELLER. You have to catch a plane, is that the problem?

Mr. GOURLEY. Not yet. I'm going to be with you for awhile. Thank you for your concern.

Senator ROCKEFELLER. Please go ahead.

[The prepared statement of the Mortgage Bankers Association of America appears on p. 323.]

STATEMENT OF SHIRLEY McVAY WISEMAN, VICE PRESIDENT/TREASURER, NATIONAL ASSOCIATION OF HOME BUILDERS

Ms. WISEMAN. Thank you, Mr. Chairman. My name is Shirley McVay Wiseman and I am the Vice President and Treasurer of the National Association of Home Builders. I am pleased to be here to express our views on the VA Home Loan Guaranty Program.

I would like to comment on the administration's fiscal year 1988 budget proposals, including our opposition to the increase in the VA user fee and the elimination of the administratively set VA interest rate. I would also like to express our support for legislation S. 9. We support the increase in the VA loan guaranty maximum and the mortgage ceiling exemption contained in this legislation.

The President has, again, submitted an increase in the VA user fee from 1 percent to 2.5 percent. We feel that increasing the VA guaranty fee will raise the cost of homeownership. The increase from 1 percent to 2.5 percent would more than double the cash outlay on a home if the fee is paid up front—an increase of over $1,000. And if it is financed, over $3,000 for a 30-year mortgage would be added to the cost of the loan. Thousands of veterans do not have the additional cash, and would be denied their right to homeownership.

NAHB views the VA fee as a continuing effort by the Administration to restrict federal programs.

The impact of the proposed changes on the GNMA program on the VA Home Loan Guaranty Program is substantial, since VA comprises one-third of the collateral of GNMA securities. The proposed increase in the GNMA fee from 6 to 10 basis points will directly impact the VA Home Loan Guaranty Program by raising costs to homebuyers.

The 1 percent funding fee will expire on September 30, 1987. Even with the 1 percent fee, the loan guaranty fund may have to be supplemented by a congressional appropriation.

Therefore, we suggest that the 1 percent fee be retained for an additional year.

We support the continued use of the administratively set VA interest rate, in order to protect the interest of the veteran and the guaranty fund.

I appreciate the opportunity to comment on the home loan guaranty provisions of S. 9. We support the loan provisions.

Because of substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from $27,500 to $36,000 is well justified.

In the past 10 years, from 1976 to 1986, new home prices went from $48,000 to $111,000, an increase of 133 percent. The loan guaranty maximum increased only 57 percent. This increase in the maximum would certainly benefit veterans, especially in high cost areas.

For the first time in the history of the program, a ceiling was placed on the overall number of loans that could be made by the VA. VA home loan guarantees require no direct Federal outlays, and should be exempt from sequestration provisions of Gramm/Rudman.

We also support an adjustable rate mortgage. A savings of almost $100 in monthly mortgage payments could be realized by the homebuying veteran, if he could achieve an interest rate of 2 percentage points below the 8.5 percent administratively set interest rate. If the rate were lowered to 6.5 percent, many more veterans would be able to obtain homeownership.

In closing, I would like to emphasize our opposition to the increase in the VA user fee and the establishment of a negotiated interest rate for veteran homebuyers. We support an increase in the loan guaranty maximum, exemption from mortgage ceilings, and an adjustable rate mortgage.

Thank you, very much.

Senator **Rockefeller**. Thank you very much. Mr. Sabin?

[The prepared statement of Ms. Wiseman appears on p. 345.]

STATEMENT OF STAN H. SABIN, CHAIR, REAL ESTATE FINANCE COMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Mr. **Sabin**. Mr. Chairman, my name is Stan H. Sabin. I am a realtor from Huntington Beach, California, and I serve as Chair of the Real Estate Finance Committee for the National Association of Realtors. On behalf of the more than 750,000 members of our association, I want to thank you and the members of your committee for the opportunity to present our views on veterans' housing issues, and specifically those issues affecting the VA Home Loan Guaranty Program.

I am here today to express our concern over the relentless, piecemeal approach of the administration to dismantle these programs. It appears evident that the administration will continue its efforts to further its objective of reducing the Federal Government's role in housing. In keeping with the efforts of the National Association of Home Builders, the Mortgage Bankers Association, and this Association, we feel it is imperative that Congress develop a formal national housing policy in order to provide a reasoned framework in which to address this Nation's housing needs.

As in the past, the National Association of Realtors continues to oppose an increase in the VA user fee. This year, the President's fiscal year 1988 budget recommends that the 1 percent funding be increased to 2.5 percent.

Mr. Chairman, the VA Home Loan Guaranty Program was established as a veteran's benefit, an entitlement program secured by service to one's country. We believe that the purpose of the program would be dramatically altered by this proposed user fee increase, resulting in denied home ownership opportunities for many qualified veterans.

In keeping with our previous policy to deregulate the FHA administered rate, the National Association of Realtors supports a negotiated interest rate for the VA Home Loan Guaranty Program.

The National Association of Realtors supports the development of a direct appraisal system within the VA Home Loan Guaranty Program, such as the one contained in legislation introduced in the 99th Congress by Representative Stan Parris, H.R. 4948.

Mr. Chairman, we support the concept of this legislation, because we believe that these changes would provide more timely service to the homebuying veteran.

The National Association of Realtors continues to support initiatives, such as those contained in S. 9, to raise the VA guarantee maximum from its present level of $27,500.

As you know, the maximum guarantee has not been changed since 1980. According to the Association's existing home sales data, the median sales price on an existing single-family home has risen 29 percent since 1980. And our projections indicate another increase of 5 percent this coming year. This analysis supports an increase in the loan guaranty maximum from $27,500 to $36,850.

Mr. Chairman, as you know, we have been working with the VA and FHA for over a year to develop a cooperative effort, by which realtors and other real estate professionals can assist these agencies to dispose of their properties. Providing for alternative disposition methods has met with a varying degree of success. And we are still in the process of refining the prototype standards.

The bulletin board concept appears to be a workable, cost-effective method of increasing exposure to VA's properties, and we have had particular success in our northern California site.

Unfortunately, not all VA regional offices are so fortunate to have the resources to dedicate to this endeavor. We have learned, in our visits to VA regional offices over the past several months, that the VA Home Loan Guaranty Program departments are woefully understaffed and without adequate resources.

Mr. Chairman, if this, or any other program to increase sales of VA's inventory properties, is to work, the VA must be provided with the proper tools to meet its goals.

The administration has also proposed increasing the minimum and maximum percentage of inventoried properties sold without vendee financing. Mr. Chairman, we believe that the current percentage limitations have worked well over the past 2 years, and that VA needs the flexibility to use vendee financing to sell its properties, particularly in areas with depressed housing markets. At this point, we can see no reason to increase the minimum and maximum limits.

As you know, Mr. Chairman, the Government National Mortgahe Association announced in December that it would be altering the allocation of the existing 50 basis points fee which is collected by issuers of the mortgage-backed securities which GNMA guarantees.

The Association has reviewed the adequacy of the GNMA reserve funds, and we do not believe that this change is necessary at this time. Furthermore, such a modification will ultimately increase the cost and decrease availability of home ownership for future veteran homebuyers.

Mr. Chairman, the National Association of Realtors has always considered the VA Home Loan Guaranty Program a veteran entitlement program, and we believe that it should be allowed to operate in an unfettered manner, without unnecessary interruptions.

Thank you. I appreciate the opportunity to share our views with you and the committee.

[The prepared statement of Mr. Sabin appears on p. 360.]

Senator **Rockefeller**. I thank you all very much.

I don't know what your plane situation is, Mr. Gourley, but I have questions if you are able to stay.

Mr. **Gourley**. I'm here as long as you would like to have me here.

Senator **Rockefeller**. All right.

On page 8 of your testimony, you state that, if the VA were to sell its vendee loans without recourse. ". . . it is doubtful whether they could be put in GNMA pools. This means the loans would be sold at outrageously low prices or not at all."

My question to you is, could you please explain the importance, from the standpoint of the VA getting a good price for the loans, of the loans being put in GNMA pools.

Mr. **Gourley**. Yes. On loans that go into GNMA pools, when we issue a pool, we have made the loan, we have underwritten the credit. The vendee loans don't have the same underwriting that has been done on the loans we made, and we would be buying them sort of naked, if you would, without our own support. That basically means when we put the loans in a pool without the recourse to the VA, the product would not be from the issuance standpoint acceptable. The lender takes the risk of the loan going bad. The risk would be too great.

Senator **Rockefeller**. All right. How would it be determined whether the loans could be put in such pools, and who would make such a determination?

Mr. **Gourley**. Help. [Laughter.]

GNMA is normally the one that makes that decision about what is eligible for a pool. Regular FHA, 203B, VA loans, are part of what we put in pools. Now, vendee loans have not been acceptable without the recourse provision to the VA. GNMA would make that decision.

But the unattractive part, as I said earlier, what makes them unattractive is, the risk to the issuer.

Senator **Rockefeller**. Let me ask this next question of each of you. Hopefully, you can each respond. It regards the VA's new residual income guidelines, which provide for an evaluation of minimum residual income based on regional, rather than local, standards of cost of living.

At the hearing yesterday, we discussed this issue with Mr. Vogel. And he testified that the residual income guidelines were just that—that is, guidelines—and that they are not hard and fast rules, and that lenders are expected to use their judgment in applying them.

According to Mr. Vogel, lenders, therefore, are permitted to make adjustments for local and individual circumstances when they feel that it is appropriate. In your experience, have lenders actually been viewing the guidelines as discretionary instructions which afford them flexibility in analyzing a loan applicant's creditworthiness, or, have the lenders generally considered the regional standards as fixed, concrete requirements for all applicants?

Mr. SABIN. I'll respond. Specifically, in general, the lenders view those guidelines as the law. There is no change. You try to get something submitted that is not in those guidelines and (a) they don't believe they can do it in most cases, (b) they don't want to take the time, and (c) they would just rather roll onto another loan.

Ms. WISEMAN. Mr. Chairman, the home builders have found the Veterans' Administration very cooperative in working with us in problem areas. If I may, I would like to take this opportunity to commend Bob O'Toole, Director of the Loan Guaranty Program. He meets with us regularly and we have been able to address any problem areas quite adequately. We feel very comfortable with the way the VA is handling this process.

Senator ROCKEFELLER. All right.

Mr. GOURLEY. When it first came out, many of the VA offices made it appear to be an absolute, the ratios and the residuals were to be treated as the final say. After having brought this to the attention of Bob O'Toole, as Mrs. Wiseman said, and after having talked with the various offices, they have, generally, interpreted it, now in most VA offices—and it will vary from to State to State, as regions—that it is a guideline. Most lenders now operate on what is known as automatic guaranty. We do the processing and we make those decisions.

Many of us feel very comfortable in most of the areas that we operate, that they are guidelines and we can make adjustments area by area. But, lenders will do it differently, local VA offices will look at the difference. So, we have had to sort of come into this gradually. I think more and more they have been implemented across the country as guidelines, rather than law.

But, it appeared to be law to start with.

Mr. SABIN. I didn't mean to be misunderstood. The VA understands that they are guidelines. The problem that we are running into is that when they put out a guideline, they don't say, this is a guideline that you don't really have to do. They say, this is a guideline. And, so there are a great percentage of the lenders who still think that guideline means law. It is the lender that has the problem. And I don't mean specifically a group. But, that is a problem we have run into.

Mr. GOURLEY. Call them mortgage bankers. [Laughter.]

Senator ROCKEFELLER. Do any of you have any further comments that you would like to make?

[No response.]

Senator **Rockefeller**. I very much appreciate your courtesy in coming here. I'm told that some of you had to do some schedule adjusting, and I'm very grateful for that.

We will be back in touch with you on some of the points that you have made. There may be more material for the record that we would like to get from you.

I also have a statement I would like to make before we adjourn.

I entered a statement into the record yesterday I gave part of it, but I did not give the part expressing my grave concerns about the veterans' budget submitted by the administration.

I had a chance to read Chairman Cranston's remarks today. And I must say that I agree with those remarks fully, particularly in terms of the need to act on the plight of homeless veterans. I also support extending authority for the Vet Centers, and rejecting major provisions of the VA's budget for fiscal year 1988.

I am going to be introducing legislation this afternoon, which calls for additional funding for the Veterans' Job Training Act, corresponding changes in deadlines regarding applying for and participating in the VJTA program, and a special provision to qualify homeless veterans for VJTA assistance.

As the members of our committee know, the VJTA program is broke—completely broke in some States, such as my own, West Virginia. West Virginia's program has run out of Federal funds and can only place veterans, seeking VJTA assistance on a waiting list, which is not what we want.

Although the program needs strengthening, I strongly believe that we should seek additional appropriations immediately, to make sure that we do not retreat from this major program to help unemployed and homeless veterans obtain stable and productive employment.

The bill which I will offer essentially seeks to revive the authorization for a VJTA appropriations of $65 million which was provided in fiscal year 1986. As the members of our committee know, we were successful, particularly with the superb leadership of Senator DeConcini, as a member of the Appropriations Committee, in obtaining $35 million.

Therefore, my hope is that we can persuade our colleagues to allocate the remaining $30 million as soon as the appropriate vehicle emerges.

My bill would provide the authority to make this supplemental appropriation this year.

Earlier, there were a lot of our veterans' groups here, and I happened to miss them because they testified before I came in.

But, I know that they have spoken in support of this initiative. And, I must say, I look forward to working with Chairman Cranston throughout this entire process. His bill, S. 477, the Homeless Veterans' Assistance Act, is on our agenda next week for a markup for prompt and swift action.

I'm going to propose my measure to extend and modify the VJTA program as an amendment to S. 477. Given that my bill would target unemployed and homeless veterans, and help them enter or re-enter the work force, I believe this would be a fitting and important addition to Chairman Cranston's proposal.

This hearing is adjourned.

[Whereupon, at 11:58 a.m., the hearing was concluded.]

APPENDIX

100TH CONGRESS
1ST SESSION

S. 6

To amend title 38, United States Code, to improve various aspects of Veterans' Administration health-care programs, to provide certain new categories of persons with eligibility for readjustment counseling from the Veterans' Administration and to postpone the transition period for the Vet Center program, to authorize the establishment of a pilot program for the furnishing of noninstitutional care to certain veterans, and to increase the per diem rates paid to States for providing care to veterans in State homes; and to prohibit the excessing of certain Veterans' Administration properties; and to promote greater emphasis by affiliated health-professional training institutions on geriatric training and research; and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 6, 1987

Mr. CRANSTON (for himself, Mr. MATSUNAGA, Mr. DECONCINI, Mr. MITCHELL, Mr. ROCKEFELLER, Mr. GRAHAM, and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

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A BILL

To amend title 38, United States Code, to improve various aspects of Veterans' Administration health-care programs, to provide certain new categories of persons with eligibility for readjustment counseling from the Veterans' Administration and to postpone the transition period for the Vet Center program, to authorize the establishment of a pilot program for the furnishing of noninstitutional care to certain veterans, and to increase the per diem rates paid to States for providing care to veterans in State homes; and to prohibit the excessing of certain Veterans' Administration properties; and to promote greater emphasis by affiliated health-professional training institutions on geriatric training and research; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; REFERENCES TO TITLE 38, UNITED STATES CODE.

(a) SHORT TITLE.—This Act may be cited as the "Veterans' Health Care Improvement Act of 1987".

(b) REFERENCES TO TITLE 38.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or a repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of title 38, United States Code.

SEC. 2. SERVICES TO OVERCOME SERVICE-CONNECTED DISABILITIES AFFECTING PROCREATION.

Clause (A) of section 601(6) is amended to read as follows:

"(A) (i) surgical services, (ii) services to achieve pregnancy in a veteran or a veteran's spouse where such services are necessary to overcome a service-connected disability impairing the veteran's procreative ability, (iii) dental services and appliances as described in sections 610 and 612 of this title, (iv) optometric and podiatric services, (v) (in the case of a person otherwise receiving care or services under this chapter) preventive health-care services as defined in section 662 of this title, (vi) (except under the conditions described in section 612(f)(1)(A)(i) of this title) wheelchairs, artificial limbs, trusses and similar appliances, special clothing made necessary by the wearing of prosthetic appliances, and such other supplies or services as the Administrator determines to be reasonable and necessary, and (vii) travel and incidental expenses pursuant to the provisions of section 111 of this title; and".

SEC. 3. ELIGIBILITY FOR DOMICILIARY CARE.

(a) IN GENERAL.—Subsection (b) of section 610 is amended to read as follows:

"(b) The Administrator, through Veterans' Administration facilities, may furnish such domiciliary care as the Administrator determines is needed by a veteran for the purpose of receiving treatment or rehabilitation if the Administrator finds, pursuant to regulations which the Administrator shall prescribe, that the veteran—

"(1) has a service-connected disability, or

"(2) is incapacitated from earning a living and has no adequate means of support.".

(b) CONFORMING AMENDMENT.—Section 622(g) is amended by striking out "section 610(b)(2) and" and inserting in lieu thereof "section".

SEC. 4. READJUSTMENT COUNSELING AND RELATED MENTAL HEALTH SERVICES.

(a) EXTENSION OF ELIGIBILITY.—Section 612A(a) is amended—

(1) by inserting "(1)" before "Upon", and

(2) adding at the end the following new paragraph:

"(2)(A) Upon the request of—

"(i) a person who is serving on active duty and who also served on active duty during the Vietnam era, or

"(ii) a person (I) who is a veteran or is serving on active duty, and (II) who served on active duty after May 7, 1975, in an area during a period in which hostilities (as defined in subparagraph (B) of this subsection) occurred in such area,

the Administrator shall, within the limits of Veterans' Administration facilities, furnish counseling to assist such person in readjusting to civilian life or to active duty following service during such era or in such area.

"(B) For the purpose of subparagraph (A)(ii) of this subsection, the term 'hostilities' means a situation in which members of the Armed Forces were, as determined by the Administrator in consultation with the Secretary of Defense, subjected to danger from armed conflict comparable to the danger to which members of the Armed Forces have been subjected in battle with the enemy during a period of war.".

(b) DELAY IN TRANSITION PERIOD.—Section 612A(g) is amended—

(1) in paragraph (1)(A), by striking out "centers located" and all that follows through "such health-care facilities" and inserting in lieu thereof "Vet Centers to a program providing readjustment counseling services primarily through Veterans' Administration general health-care facilities";

(2) in paragraph (2)—

(A) in subparagraph (A), by striking out "(Public Law" and all that follows through "available)"; and

(B) in subparagraph (B)—

(i) by striking out "and" at the end of clause (i);

(ii) by striking out the period at the end of clause (ii) and inserting in lieu thereof a semicolon and "and"; and

(iii) by adding at the end the following new clause:

"(iii) the Administrator's analysis and findings (focusing on veterans who served in combat) as to whether or not veterans who served on active duty during World War II or the Korean conflict could benefit from services provided under this section and, if so, the Administrator's recommendations on the most desirable means by which such services could be furnished.";

(3) in paragraph (3), by striking out "(or" and all that follows through "available)";

(4) in paragraph (4), by striking out "experience" the first place it appears and all that follows and inserting in lieu thereof "Administrator's evaluation of the experience under as much of the transition as was carried out pursuant to paragraph (1) of this subsection prior to September 30, 1989, and, based on that evaluation, the results of the study required by section 102 of the Veterans' Health Care Amendments of 1983 (Public Law 98-160), and other pertinent information regarding the readjustment counseling program, the Administrator's opinion as to the extent to which the provision of readjustment counseling services under this section through Vet Centers is needed to meet the readjustment needs of veterans who served on active duty during the Vietnam era."; and

(5) by adding at the end the following new paragraph:

"(5) In the event that the study related to post-traumatic stress disorder referred to in subparagraph (A) of paragraph (2) of this subsection is not completed in sufficient time for the Administrator to give the results of the study consideration (as required by such subparagraph) in the preparation of the report which the Administrator is required by such subparagraph to submit not later than April 1, 1987, regarding the future direction of the program for providing readjustment counseling and mental health services pursuant to this section, the dates by which such report and the reports required by paragraphs (3) and (4) of this subsection must be submitted shall be postponed by one year and the twenty-four-month period referred to in paragraph (1) of this subsection shall be deemed to be the twenty-four-month period ending on September 30, 1990. In the event that the postponements described in the preceding sentence take effect, the Administrator shall promptly publish a notification thereof in the Federal Register and promptly so advise the Committees on Veterans' Affairs of the Senate and House of Representatives.

"(6) For the purpose of this subsection—

"(A) The term 'Vet Centers' means facilities which are operated by the Veterans' Administration for the provision of services under this section and which are situated apart from Veterans' Administration general health-care facilities.

"(B) The term 'Veterans' Administration general health-care facilities' means health-care facilities operated by the Veterans' Administration for the furnishing of health-care services under this chapter, not limited to services provided through the programs established under this section.".

SEC. 5. PILOT PROGRAM OF NONINSTITUTIONAL ALTERNATIVES TO INSTITUTIONAL CARE.

(a) ESTABLISHMENT OF PILOT PROGRAM.—Subchapter 11 of chapter 17 is amended by adding at the end the following new section:

"§ 620C. Noninstitutional alternatives to institutional care; pilot program

"(a)(1) The Administrator, during the period beginning January 1, 1988, and ending December 31, 1991, and subject to subsection (c) of this section, shall conduct a pilot program under which veterans eligible under this chapter for and otherwise in need of hospital, nursing home, or domiciliary care will be furnished medical, rehabilitative, and health-related services in noninstitutional settings at not less than five nor more than ten demonstration project sites.

"(2) In selecting veterans for participation in the program, the Administrator shall accord priority to veterans who have service-connected disabilities, to veterans who are sixty-five years of age or older, to veterans who are totally and permanently disabled, and to veterans who are suffering from Alzheimer's disease or other forms of dementia.

"(b)(1)(A) In the conduct of the program, the Administrator shall (i) furnish appropriate health-related services solely through contracts with appropriate public and private agencies that provide such services, and (ii) in the case of each veteran furnished services under the program, appoint a Veterans' Administration health-care employee to furnish case management services.

"(B) For the purposes of subparagraph (A) of this paragraph, 'case management' includes the coordination and facilitation of all services furnished to a veteran by the Veterans' Administration, either directly or through contract, including, but not limited to, screening, assessment of needs, planning, referral (including referral for services to be furnished by the Veterans' Administration, either directly or through a contract, or by an entity other than the Veterans' Administration) monitoring, reassessment, and follow up.

"(2) In order to evaluate the cost-effectiveness of utilizing certain health services of agencies other than the Veterans' Administration in cases in which no Veterans' Administration facility in the vicinity of a demonstration project provides such services, the Administrator, in not more than two of the demonstration projects, may utilize appropriate health services of appropriate public and private agencies that furnish such services.

"(3) The Administrator may provide in-kind assistance (through the services of Veterans' Administration employees and the sharing of other Veterans' Administration resources) to a facility furnishing services to veterans under subparagraph (1)(A)(i) of this subsection. Any such in-kind assistance shall be provided under a contract between the Veterans' Administration and the facility concerned. The Administrator may provide such assistance only for use solely in the furnishing of appropriate services under this section and only if, under such contract, the Veterans' Administration receives reimbursement for the full cost of such assistance, including the cost of services and supplies and normal depreciation and amortization of equipment. Such reimbursement may be made by reduction in the charges to the United States or by payment to the United States. Any funds received through such reimbursement shall be credited to funds alloted to the Veterans' Administration facility that provided the assistance.

"(c) The total cost of conducting the pilot program under this section shall not exceed 60 per centum of the cost that would have been incurred by the Veterans' Administration during the period of the pilot program if the veterans furnished services under the pilot program had been furnished, instead, nursing home care under section 610 of this title. In any fiscal year, the cost of carrying out the pilot program shall not exceed 65 per centum of the cost that would have been so incurred during such year in furnishing the veterans who received services under the pilot program with nursing home care under such section 610.

"(d) Not later than April 1, 1991, the Administrator shall submit to the Committees on Veterans' Affairs of the Senate and House of Representatives a report setting forth the Administrator's evaluation, findings, and conclusions regarding the pilot program, and its results for the participating veterans, during its first thirty-six months. The report shall include a description of the conduct of the program (including a description of the veterans furnished services and of the services furnished under the pilot program), and any plans for administrative action, and any recommendations for legislation, that the Administrator considers appropriate to include in the report.".

"(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 17 is amended by inserting after the item relating to section 620B the following new item:

"620C. Noninstitutional alternatives to institutional care; pilot program.".

SEC. 6. RULES AND REGULATIONS RELATING TO HOSPITAL, NURSING HOME, DOMICILIARY, AND MEDICAL CARE.

The text of section 621 is revised to read as follows:

"The Administrator shall prescribe all rules and regulations which are necessary and appropriate to govern the furnishing of hospital, nursing home, and domiciliary care and medical services under laws administered by the Veterans' Administration and which are consistent therewith, including such rules and regulations as are necessary and appropriate in order to promote good conduct on the part of persons who are receiving such care or services in Veterans' Administration facilities.".

SEC. 7. INCREASE IN PER DIEM RATES FOR CARE IN STATE HOMES.

Section 641(a) is amended by striking out clauses (1) through (3) and inserting in lieu thereof:

"(1) $8.70 for domiciliary care, and

"(2) $20.35 for nursing home and hospital care,".

SEC. 8. ORGANIZATION OF THE DEPARTMENT OF MEDICINE AND SURGERY.

(a) OFFICE OF THE CHIEF MEDICAL DIRECTOR.—Section 4103(a) is amended—

(1) by inserting "persons, each of whom shall be qualified in the administration of health services" after "following";

(2) in clause (3)—

(A) by striking out "The" and inserting in lieu thereof "Two";

(B) by striking out "Director" the first place it appears and inserting in lieu thereof "Directors";

(C) by striking out "an assistant" and inserting in lieu thereof "assistants";

(D) by striking out "shall be a qualified doctor of medicine" and inserting in lieu thereof "both shall be persons with specified qualifications"; and

(E) by adding at the end the following new sentence: "Not more than one Associate Deputy Chief Medical Director may be a person who is a person with specified qualifications solely by reason of clause (ii) of the last sentence of this subsection.";

(3) in clause (4)—

(A) in the first sentence, by striking out "who shall be" the first place it appears and inserting in lieu thereof "all of whom shall be persons with specified qualifications,";

(B) in the second sentence, by striking out "qualified in the administration of health services who are not doctors of medicine, dental surgery, or dental medicines" and inserting in lieu thereof "who are persons with specified qualifications solely by reason of clause (ii) of the last sentence of this subsection"; and

(C) in the last sentence, by striking out "qualified physician" and inserting in lieu thereof "person with specified qualifications";

(4) in clause (5)—

(A) by inserting a comma and "all of whom shall be persons with specified qualifications," after "Directors";

(B) by striking out the commas after "Administrator" and "Director"; and

(C) by striking out the second sentence;

(5) in clause (6), by inserting "upon the recommendation of the Chief Medical Director" after "Administrator";

(6) in clause (7)—

(A) by inserting a comma and "each of whom shall be licensed in the appropriate service field" after "Optometric Service"; and

(B) by inserting "upon the recommendation of the Chief Medical Director" after "Administrator"; and

(7) by adding at the end the following new sentence:

"For the purpose of this subsection, the term 'person with specified qualifications' means (i) a person meeting the requirements set forth in clause (1), (2), (3), (5), (6), (7), or (8) of subsection (a) of section 4105 of this title, or (ii) a person who meets or has met the requirements set forth in clause (4) of such subsection.".

(b) TECHNICAL AMENDMENT.—Section 4103(b)(3) is amended by inserting a comma after "reappointed" and after "extended" and by striking out the comma after "reappointment".

SEC. 9. PROHIBITION AGAINST EXCESSING OF CERTAIN VETERANS' ADMINISTRATION PROPERTIES.

(a) Section 234 of Public Law 99-576 is repealed.

(b) The Administrator of Veterans' Affairs may not declare as excess to the needs of the Veterans' Administration, or otherwise take any action to dispose of, the land and improvements at the Veterans' Administration Medical Center, West Los Angeles, California (consisting of approximately one hundred and nine acres), and at the Veterans' Administration Medical Center, Sepulveda, California (consisting of approximately forty-six acres), described in letters dated February 5, 1986 (and enclosed maps), from the Administrator to the Committees on Veterans' Affairs of the Senate

House of Representatives pursuant to section 5022(a)(2) of title 38, United States Code.

SEC. 10. REPORT ON CERTAIN ACTIVITIES RELATING TO TRAINING IN GERIATRICS OF MEDICAL AND OTHER HEALTH-PROFESSIONAL SCHOOLS AFFILIATED WITH THE VETERANS' ADMINISTRATION

(a) The Congress makes the following findings:

(1) In view of the estimate that, by the year 2030, the percentage of the United States' population that is age sixty-five and older will have risen to nearly 22 per centum from the current level of approximately 12 per centum, responding appropriately to the future health-care needs of the increasing elderly population of the United States represents one of our Nation's greatest challenges.

(2) Because veterans cluster in age groups related to periods of major conflicts, the aging of the general population is accelerated in the case of veterans, and veterans of War II and the Korean conflict will enter in the near future the age range with the greatest need for health and health-related services and constitute a very significant portion of the total veteran population.

(3) In response to the needs of the growing number of older veterans, the Veterans' Administration, pursuant to Congressional guidance and direction, has increased its ef-

forts with respect to the development of new approaches to furnishing such care, the training of health-care professionals in the care of older patients, and the carrying out and funding of research into diseases and disabilities associated with aging and into the aging process.

(4) As a result of the Veterans' Administration's affiliation arrangements with one hundred and one medical schools, fifty-nine dental schools, approximately five hundred nursing schools, and approximately three hundred and fifty other health-care professional training institutions through which over one hundred thousand students and trainees receive training in Veterans' Administration facilities annually and the important role which those arrangements fulfill in those schools carrying out their education and training missions, the Veterans' Administration has a vital opportunity to improve efforts to train health-care professionals in the care of older patients and to heighten research activity into diseases and disabilities associated with aging and into the aging process.

(5) As an indication of the importance of the Veterans' Administration's role in promoting efforts by affiliated health-care professional training institutions, the Congress in Public Law 96-330, provided that no Veterans' Administration medical center could be designated as the site for a Geriatric Research, Education, and Clinical Center—centers of excel-

lence in the area of aging research, education, and treatment—unless the Veterans' Administration medical center has arrangements with affiliated schools which provide education and training in geriatrics and which provide medical residents and nursing or allied health personnel with training and education in geriatrics through regular rotation through all bed components of the Veterans' Administration medical center.

(b)(1) In light of the findings in subsection (a), not later than March 1, 1987, the Administrator of Veterans' Affairs shall submit to the Committees on Veterans' Affairs of the Senate and House of Representatives a report regarding the Veterans' Administration's activities, and the success of those activities, designed to promote increased efforts by affiliated medical and other health-professional training schools (1) in training heath-care professionals to care for older patients, and (2) in research into the aging process and diseases and disabilities associated with aging.

(2) The report shall include—

(A) information, for each academic year from 1980–1981 through 1986–1987, on the number of institutions affiliated with the Veterans' Administration (hereinafter in this paragraph referred to as "affiliated institutions"), broken down by type of institution and type of training, that—

(i) have a program through which students or trainees receive education and training in geriatrics through regular rotation through Veterans' Administration medical centers, nursing homes, domiciliary care facilities, or other units providing extended care to veterans; or

(ii) have a formal program providing education and training in geriatrics; or

(iii) have both such programs;

(B) information on the number of affiliated institutions (broken down by type of institution) that are planning to establish programs as described in subparagraph (A), together with a timetable for such actions;

(C) estimates to the costs, both to the Veterans' Administration and to the affiliated institutions, of the programs described in subparagraphs (A) and (B);

(D) estimates of the number of Veterans' Administration patients receiving care or who will receive care from the students or trainees participating in programs described in subparagraphs (A)(i) and (B);

(E) a description of the role of the Veterans' Administration in encouraging the establishment and continuation of the programs described in subparagraph (A); and

(F) the views of the Administrator on the feasibility and desirability of requiring, as a condition of the Veterans' Administration's entering into or continuing an affiliation agreement with a health-care professional training institution, the establishment with such institution of the appropriate type of arrangements described in subparagraph (C) (i) or (ii) of section 4101(f) of title 38, United States Code.

100TH CONGRESS
1ST SESSION

S. 279

To amend title 38, United States Code, to postpone the transition period for the Veterans' Administration Vet Center Program and to delay the due date of certain reports related thereto; and to delay the due date of a report on post-traumatic stress disorder among Vietnam-era veterans, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 6, 1987

Mr. DECONCINI (for himself, Mr. CRANSTON, Mr. MATSUNAGA, Mr. MITCHELL, Mr. ROCKEFELLER, and Mr. LAUTENBERG) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

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A BILL

To amend title 38, United States Code, to postpone the transition period for the Veterans' Administration Vet Center Program and to delay the due date of certain reports related thereto; and to delay the due date of a report on post-traumatic stress disorder among Vietnam-era veterans, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) Section 612A(g) of title 38, United States Code, is amended—

(1) in paragraph (1)(A)—

(A) by striking out "October 1, 1989" and inserting in lieu thereof "October 1, 1990"; and

(B) by striking out "centers located" and all that follows through "such health-care facilities" and inserting in lieu thereof "Vet Centers to a program providing readjustment counseling services primarily through Veterans' Administration general health-care facilities";

(2) in paragraph (2)(A)—

(A) by striking out "April 1, 1987" and inserting in lieu thereof "April 1, 1988"; and

(B) by striking out "(Public Law" and all that follows through "available)";

(3) in paragraph (3)—

(A) by striking out "July 1, 1987" and inserting in lieu thereof "July 1, 1988"; and

(B) by striking out "(or" and all that follows through "available)";

(4) in paragraph (4)—

(A) by striking out "February 1, 1989" and inserting in lieu thereof "February 1, 1990"; and

(B) by striking out "experience" the first place it appears and all that follows and inserting in lieu thereof "Administrator's evaluation of the experience under as much of the transition as was carried out pursuant to paragraph (1) of this subsection prior to September 30, 1989, and, based on that evaluation, the results of the study required by section 102 of the Veterans' Health Care Amendments of 1983 (Public Law 98–160), and other pertinent information regarding the readjustment counseling program, the Administrator's opinion as to the extent to which the provision of readjustment counseling services under this section through Vet Centers is needed to meet the readjustment needs of veterans who served on active duty during the Vietnam era."; and

(5) by adding at the end the following new paragraph:

"(5) For the purposes of this subsection—

"(A) The term 'Vet Centers' means facilities which are operated by the Veterans' Administration for the provision of services under this section and which are situated apart from Veterans' Administration general health-care facilities.

"(B) The term 'Veterans' Administration general health-care facilities' means health-care facilities operated by the Veterans' Administration for the furnishing of health-care services under this chapter, not limited to services provided through the programs established under this section.".

(b) Section 102(b) of the Veterans' Health Care Amendments of 1983 (Public Law 98-160; 97 Stat. 994) is amended by striking out "October 1, 1986" and inserting in lieu thereof "October 1, 1987".

II

100TH CONGRESS
1ST SESSION

S. 477

To assist homeless veterans.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 4, 1987

Mr. CRANSTON (for himself, Mr. MATSUNAGA, Mr. DECONCINI, Mr. MITCHELL, Mr. ROCKEFELLER, and Mr. GRAHAM) introduced the following bill; which was read twice and referred to the Committee on Veterans' Affairs

---

A BILL

To assist homeless veterans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Homeless Veterans Assistance Act of 1987".

ASSISTANCE IN PROVIDING SHELTER

SEC. 2. (a) The Administrator is authorized to enter into agreements, described in subsection (b), with any organization named in, or approved by the Administrator under, section 3402 of title 38, United States Code, or any other governmental, public, or nonprofit private institution, organization, corporation, or other entity, especially any such entity working on behalf of homeless individuals, for the purpose of providing shelter primarily for homeless veterans and their families.

(b)(1) Agreements authorized by subsection (a) are agreements pursuant to which the Administrator would, subject to paragraph (2) of this subsection—

(A) transfer on a permanent basis or lease for a fixed period of time, for no or nominal consideration, to such an entity real property acquired by the Administrator as the result of a default on a loan guaranteed under chapter 37 of title 38, United States Code; or

(B) lease, for a fixed period of time or otherwise temporarily make available, to such an entity underutilized facilities under the jurisdiction of the Administrator that would be suitable for providing emergency shelter.

(2) The Administrator may enter into an agreement under paragraph (1) only if the Administrator determines that such an action will not adversely affect the Veterans' Administration's ability to fulfill its statutory missions or to carry out other functions and administer other programs authorized by law.

(c) In selecting entities with which to enter into agreements under subsection (a), the Administrator shall accord a preference to entities which—

(1) have a demonstrated commitment to working with and on behalf of homeless individuals;

(2)(A) have a demonstrated ability to establish, operate, and maintain shelters for homeless individuals, or (B) are an organization named in, or approved by the Administrator under, section 3402 of title 38, United States Code;

(3) have a plan for utilizing the voluntary services of shelter residents to rehabilitate and repair, as necessary, such property as needed for improving habitability; and

(4) have a plan for utilizing volunteer assistance of Veterans' Administration employees or members of veterans service organizations in the establishment, operation, and maintenance of the shelter established pursuant to such an agreement.

(d) Any agreement entered into by the Administrator under subsection (a) shall be on such terms and conditions as the Administrator determines to be appropriate and necessary to carry out the purpose of such agreement.

PILOT PROGRAM TO ASSIST HOMELESS VETERANS

SEC. 3. In order to enhance the Veterans' Administration's ability to assist homeless veterans and their families and to evaluate the effectiveness of various activities in that regard, the Administrator shall, as provided for in this section, conduct a pilot program and study for a period of not less than twenty-four months in not less than ten geographic regions in which there are significant numbers of homeless veterans. In the course of such pilot program and study, the Administrator shall undertake and evaluate various activities otherwise authorized by law as well as activities—

(1) designating individuals at Veterans' Administration facilities to coordinate official and volunteer efforts designed to assist homeless veterans and their families;

(2) authorizing Veterans' Administration employees to seek out and cooperate with, and seek to enhance the effectiveness of the activities of, other entities providing counseling, job training, and assistance with housing to homeless individuals insofar as the activities of those entities can be of assistance to homeless veterans; and

(3) encouraging Veterans' Administration employees to assist, on a volunteer basis, homeless veterans and their families in acquiring shelter, food, health care, and other necessities and to use for such purposes Veterans' Administration resources and facilities, not

otherwise employed, where the cost to the Federal Government would be minimal.

OUTREACH SERVICES PROGRAM

SEC. 4. Not later than ninety days after the date of the enactment of this Act, the Administrator shall submit to the Committees a report setting forth—

(1) a description of all efforts undertaken in the past five fiscal years under subchapter IV of chapter 3 of title 38, United States Code, to provide outreach services to homeless veterans to assist such veterans in applying for and obtaining benefits and services for which they are eligible under laws administered by the Veterans' Administration or under other laws by virtue of their veteran status;

(2) an evaluation of the effectiveness of the efforts described pursuant to clause (1) of this section in terms of increased utilization of such benefits and services by such veterans; and

(3) a description of, and a timetable for, any plans to expand such outreach efforts, together with an estimate of the additional resources needed for such expanded efforts.

REPORT ON HOMELESS VETERANS

SEC. 5. Not later than one hundred and eighty days after the date of the enactment of this Act, the Administrator, in coordination with the Secretaries of Labor, Defense, Health and Human Services, and Housing and Urban Development, shall submit to the Committees a report on the extent to which veterans are represented in the population of homeless individuals.

(b) The report required by subsection (a) shall include, to the maximum extent feasible, statistics on—

(1) the number of veterans, both as an absolute number and as a percentage, in the population of homeless individuals and the numbers of family members accompanying such veterans;

(2) a breakdown showing the periods of service of such veterans;

(3) the numbers of such veterans who, during fiscal years 1986 and 1987, received or will receive benefits and services under laws administered by the Veterans' Administration or the Department of Labor, with specific breakdowns showing the numbers who received or will receive (A) health-care services under chapter 17 of title 38, United States Code, (B) compensation under chapter 11 of such title, (C) pension under chapter 15 of such title, (D) vocational, educational, and training assistance under such title and the Veterans' Job Training Act (29 U.S.C. 721 note), or (E) job training, counseling, referral, or other vocation-

al assistance under programs carried out or supported by the Department of Labor; and

(4)(A) the numbers of such veterans who, if they were to apply, would be eligible for benefits and services under laws administered by the Veterans' Administration or the Department of Labor but who are not receiving such benefits and services, with a breakdown estimating the numbers who would be eligible for each of the benefits and services described in subclause (A), (B), (C), (D), and (E) of clause (3), and (B) a description of the reasons why such veterans are not receiving such benefits and services.

(c) Not later than thirty days after the date of the enactment of this Act, the Administrator of Veterans' Affairs shall submit a report to the committees setting forth an implementation plan and timetable for collecting the information needed for the report required by subsection (a).

CHRONICALLY MENTALLY ILL VETERANS

SEC. 5. (a) Section 235 of the Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, Public Law 99-576, is amended—

(1) redesignating subsections (b) and (c) as subsections (c) and (d), respectively; and

(2) by inserting the following new subsection (b):

"(b) The report required under subsection (a) shall also include information on the number of chronically mentally ill veterans who were furnished hospital, domiciliary, or nursing home care by the Administrator in each of fiscal years 1984, 1985, and 1986, broken down by the type of care furnished, as well as an estimate of the number of such veterans being furnished such care in fiscal year 1987, together with the Administrator's analysis of the basis for any change in the numbers of such veterans being furnished any type of such care during the period beginning with fiscal year 1984 and ending with fiscal year 1987, with particular emphasis on the impact of the implementation by the Veterans' Administration of a resources allocation methodology on the numbers of such veterans being furnished any type of such care and the duration of the care furnished.".

(b) The Administrator, in furnishing hospital, nursing home, and domiciliary care and medical and rehabilitative services under chapter 17 of title 38, United States Code, shall carry out a program to (1) utilize the authority under chapter 17 of title 38, United States Code, to contract for care and treatment and rehabilitative services in halfway houses, therapeutic communities, psychiatric residential treatment centers, and other community-based treatment facilities for eligible veterans suffering from chronic mental illness disabilities, and (2) to assist such veterans in being placed in such facilities as though such facilities were community residential care facilities under section 630 of such title.

DEFINITIONS

SEC. 6. As used in this Act:

(1) The term "Administrator" means the Administrator of Veterans' Affairs.

(2) The term "committees" means the Committees on Veterans' Affairs of the Senate and House of Representatives.

(3) The term "homeless individual" means an individual who lacks a fixed and adequate nightime residence and includes an individual whose primary residence is in a publicly or privately operated shelter which provides temporary shelter.

(4) The term "veteran" has the meaning given that term in section 101(2) of title 38, United States Code.

(5) The term "homeless veteran" means a veteran who is a homeless individual.

Opening Statement
Senator Alan Cranston, Chairman
Committee on Veterans' Affairs

Hearing on FY 1988 Budget for Veterans' Programs
S. 6 (section 4(b)) and S. 279
S. 477, "Homeless Veterans Assistance Act"

February 18, 1987

Good afternoon. Welcome to today's hearing on three topics: (1) the fiscal year 1988 budget for veterans' programs; (2) legislation that Senator DeConcini and I each introduced, S. 279 and section 4(b) of S. 6, respectively, to postpone the beginning of the two-year transition of the Vet Center program; and (3) S. 477, the proposed "Homeless Veterans Assistance Act of 1987", a bill that I, joined by Senators Matsunaga, DeConcini, Mitchell, Rockefeller, and Graham, introduced on February 4 to address the problems of homeless veterans.

This is a very full agenda, and the hearing will run until about 3:30 today and resume tomorrow morning at 11 AM. As you can see from the witness list, today's witnesses will include a panel of homeless veterans, the Department of Labor, the VA, and a panel of service organizations. Tomorrow, the witnesses will include a panel of four veterans' service organizations and a housing industry panel.

Before getting to the issues involved in today's hearing, I want to express my personal congratulations to two individuals who have assumed important new duties since the last time they appeared before the Committee -- the Deputy Administrator, Tom Harvey, and the Chief Medical Director, Dr. John Gronvall. They are both old friends and most able public servants, and we are delighted to be able to continue working with them.

I also would like publicly to congratulate Administrator Tom Turnage and the many other VA officials who worked so very hard to provide, as I had requested, the agency's prepared testimony as well as answers to most of my pre-hearing questions by last Friday, with the rest submitted yesterday. I know this took a great deal of effort and coordination, and I want everyone involved to know how very grateful we are for their fine efforts. I cannot recall a better effort by any Executive agency in preparation for a hearing. In addition, Tom, I want to express my appreciation for your generally supportive and forthcoming testimony on our legislation regarding the Vet Center program and on S. 477 relating to homeless veterans.

In this same vein, I would like to thank the many other witnesses who cooperated with us in providing their testimony last Friday as requested. Your efforts are very much appreciated -- as is everyone's cooperation in connection with the changes that were necessary in the time and place for today's and tomorrow's hearing.

Homeless Veterans

One issue of concern that will be addressed in today's hearing is the problem of homeless veterans, and legislation I introduced, S. 477, which seeks to address some parts of that very difficult problem.

Homelessness is a tragic reality for a growing number of Americans across our Nation. Every dimension of this problem is deeply troubling, and I am working hard to develop and enact legislation to help all individuals suffering from lack of adequate shelter and to prevent others from joining their ranks. As the Chairman of this Committee, I am especially concerned by reports that veterans account for a disproportionately large part of the homeless population.

According to some estimates, 40 percent of our homeless citizens may be veterans -- a shocking figure. In Los Angeles, this figure may be as high as 50 percent.

Several weeks ago, I visited a shelter operated by the Community For Creative Non-Violence here in Washington. In the course of that visit, Mitch Snyder told me that, based on his observations in a large number of cities, more that half of the homeless individuals are veterans.

Homelessness among those who defended our country's freedom casts a shadow of shame across the streets of this Nation. As Chairman of this Committee, I am deeply committed to ensuring that America responds compassionately to the needs of our Nation's homeless veterans.

On January 29, I chaired a hearing on homelessness before the Subcommittee on Housing and Urban Affairs of the Banking Committee and heard the views of a number of individuals active in this complex area about the multiple causes of this problem, especially the great shortage of federally-assisted housing.

Following that hearing, I introduced S. 477, the proposed "Homeless Veterans Assistance Act of 1987" on February 4th. This legislation is designed to address the plight of the homeless veteran by prescribing action in five specific areas of concern:

- First, this legislation would authorize the VA to assist in the provision of shelter for homeless veterans in two principal ways. The VA would be authorized to make arrangements with veterans' organizations and other non-profit private or public organizations, including, of course, local governments or governmental units, to transfer -- for no or minimal consideration -- hard-to-sell houses from the agency's inventory of over 21,000 foreclosed properties for use primarily as shelters for homeless veterans and their families. Keeping vacant large numbers of VA-owned houses that in some cases have virtually no resale value, while many thousands of veterans are without shelter, is a waste of a resource desperately-needed to help combat this problem.

I stress that this provision would authorize action but not require it. If the bill is enacted, the Administrator would be able to transfer properties that could not otherwise be disposed of to nonprofit organizations for them to establish shelters but would not be mandated to take any action if none is appropriate. Also, I stress that under this measure the operation of any such shelter -- which would, of course, have to be operated in accordance with any local zoning or other laws -- would be carried out by the transferee entity and not by the VA and the VA would not be responsible in any fashion for the activities of the shelter. Finally, in response to concerns that the bill might be administered in such a way as to be a drain on the Loan Guaranty Revolving Fund -- something I frankly cannot imagine the VA doing with this discretionary authority -- at our markup next week I will seek to amend section 2 of the bill to restrict the authority to transfer homes so as to minimize any financial detriment to the Revolving Fund.

The second way in which S. 477 would authorize the VA to assist with shelter would be authorizing the agency to lease underutilized VA facilities to the same type of nonprofit organizations for use as shelters primarily for homeless veterans and their families. This authority is similar to authority provided to the Department of Defense in section 305 of Public Law 98-94.

In selecting entities with which to enter into these agreements for the provision of shelter, the Administrator would be required to give a preference to organizations which have a demonstrated commitment to working with and on behalf of homeless individuals, which have a demonstrated ability to establish and run shelters for homeless individuals or which are veterans service organizations, and which have plans for utilizing the voluntary services of shelter residents, VA employees, and veterans service organizations in connection with repairing, rehabilitating, and running the shelter. Of course, any entity taking possession of a VA property would be required to give assurances that it would comply with all applicable zoning regulations relating to the property.

- The second principal element of S. 477 would require the VA to establish a pilot program for at least two years in ten geographic areas with significant populations of homeless veterans under which various activities would be undertaken to improve the VA's ability to assist these veterans. For example, under this program, the VA would be authorized to facilitate employees who wish to do so to volunteer their time and energy to provide assistance to homeless veterans. I understand that programs relying on volunteer efforts of VA employees have already been developed at some VA facilities in my home State of California. Other activities under this pilot program would include designating individuals at VA facilities to serve as coordinators of official and volunteer efforts to assist homeless veterans and encouraging official efforts by VA employees to seek out and work with organizations assisting homeless individuals in order to coordinate the activities of those organizations with VA efforts.

- A third provision in S. 477 would require the VA both to report on and to increase the agency's outreach efforts to homeless veterans to ensure that they receive the health care, job counseling, and income maintenance support for which they are eligible. Such benefits can serve as the tools eligible homeless veterans need to break away from homelessness and build new and better lives for themselves. The VA has existing statutory responsibility to provide outreach services to veterans, and I believe that homeless veterans are a population that could benefit greatly from such efforts.

- Fourth, this bill would require the VA, in coordination with the Departments of Labor, Health and Human Services, Housing and Urban

Development, and Defense, to determine the number and service-periods of veterans who are homeless and what veterans' benefits they are entitled to receive. Without such information -- which is now sadly absent -- any effort to assist such individuals through the VA, the federal government agency charged with the primary responsibility of serving veterans, and through other agencies can not be truly effective.

- Finally, because of concerns that a significant percentage of homeless individuals are suffering from chronic mental illness disabilities, S. 477 as introduced would require the VA to take certain steps to provide care and treatment and rehabilitative services to veterans suffering from such disabilities. Since the bill was introduced, however, Congress enacted H.J. Res. 102, with an amendment offered by the Committee's Ranking Minority Member, Senator Murkowski, authorizing the VA to enter into contracts with certain community facilities for the treatment of veterans with chronic mental illness disabilities. In light of the enactment of that measure, I intend to explore whether the provisions relating to the treatment of veterans suffering chronic mental illness disabilities in S. 477 as introduced should be modified.

With further reference to the issue of chronic mental illness, S. 477 would amend a previously mandated study by the VA on services provided to veterans with such disabilities -- which is due to be submitted this December -- to require the VA to report on the numbers of veterans suffering from chronic mental illness disabilities who were furnished VA hospital, domiciliary, or nursing home care in each of fiscal years 1984, 1985, and 1986 and to comment on any changes in the numbers of such veterans being furnished each type of care, with a particular emphasis on any changes resulting from the VA's implementation of a new resource allocation methodology. This last point is in response to concerns, raised by The American Legion at the January 29 hearing before the Housing Subcommittee, that the VA's new resource allocation methodology for distributing funds among its medical facilities is resulting in the premature discharge from VA care of veterans suffering from chronic mental illness disabilities.

I am looking forward to hearing the testimony of the witnesses that will be appearing before this Committee both today and tomorrow on S. 477, including the panel of homeless veterans that are scheduled to appear here today.

Vet Centers

The second issue on which the Committee will hear testimony today relates to the VA's readjustment counseling program for Vietnam veterans. Both section 4(b) of S. 6, legislation I introduced on January 6, with the cosponsorship of all my Democratic colleagues on the Committee as well as Senator Lautenberg, and S. 279, a measure introduced also on January 6 by Senator DeConcini which I cosponsored along with four other original cosponsors, would bring about a delay for one year, from October 1, 1987, to October 1, 1988, of the date on which a two-year transition in that program, which I will describe in more detail in a moment, is to begin.

As the author of the legislation that initially established the VA's readjustment counseling program -- section 102 of Public Law 96-22, enacted in 1979 -- and various extensions of that program, I have followed this program closely since its inception and have been very gratified over the years as the program has achieved such great success, helping so many veterans -- over 500,000 thus far. At present, there are 189 Vet Centers providing counseling and other assistance to eligible Vietnam-era veterans and their families -- primarily in storefront facilities located apart from other VA health-care facilities.

There are a number of milestones in current law, as amended in 1983 by Public Law 98-160 and again last year in Public Law 99-576, which are related to a process whereby the existing readjustment counseling program is scheduled to undergo a two-year, gradual transition beginning October 1, 1987, from a program providing services primarily through Vet Centers to a program providing such services primarily through general VA health-care facilities, such as medical centers and outpatient clinics. The "primarily" criterion is generally construed to require that by the end of the transition period a majority of the readjustment counseling programs must be operated at traditional VA facilities. However, the law also clearly requires the VA to continue to furnish that counseling to any Vietnam-era veteran requesting it, and there is no termination date on this requirement.

The first of these milestones was October 1 of last year, the date by which the VA was mandated to submit a report to the two Veterans' Affairs Committees on the initial results of a comprehensive study of the prevalence and incidence among Vietnam veterans of post-traumatic stress disorder -- PTSD -- and other postwar psychological problems in readjusting after their service.

Following that report, and taking the results of the study into consideration, the Administrator is required under current law to submit two additional reports before the transition period begins. The first of these is due on April 1 of this year and is required to set forth the Administrator's evaluation of the VA's effectiveness in meeting the readjustment needs of Vietnam-era veterans and his opinion on whether the VA should go forward with the transition effort as required in current law or whether there should be some modification of that requirement. The second report, due on July 1 of this year, must set forth the Administrator's plan for accomplishing the transition during fiscal years 1988 and 1989. Also, as a result of a provision which I authored last year and which was enacted in Public Law 99-576, there is a requirement for a third report, due under current law by February 1, 1989, on the experience of the VA during the first year of the transition.

This approach of a comprehensive study together with sequenced reports was designed to enable the Congress to make decisions about the future of the readjustment counseling program, including the nature and timing of its integration into other VA health-care facilities, with the best information available about the continued extent of readjustment problems among Vietnam veterans.

However, last year, in a May 12, 1986, letter transmitting proposed legislation to the Congress, the VA noted that the private contractors who are carrying out the study on PTSD and other postwar psychological problems "have experienced delays in the study's design and initiation".

In view of those delays, the VA proposed moving the due date for the initial report on the study back one year, to October 1, 1987.

Since the time of that initial notification of problems with the study's progress, it has become apparent that the study timetable has become seriously disrupted.

In May of last year, Committee staff met with representatives of the VA and the study contractor, Research Triangle Institute, Inc., of North Carolina, to review various problems and allegations that had arisen about the scope and conduct of the study. Thereafter, on June 6, Senator Murkowski and I, along with our then-counterparts on the House Committee on Veterans' Affairs, Chairman Montgomery and Congressman Hammerschmidt, wrote to the Office of Technology Assessment asking OTA to convene a panel to review the situation and make recommendations. OTA did that and on September 5 issued a report to the Committees recommending some major alterations in the study personnel and VA supervisory relationship. On November 24, 1986, the VA responded in a positive way to the major OTA recommendations and, late last December, Committee staff met with the VA, OTA, and representatives of the contractor. From the VA's response and the follow-up meeting, it now appears that the VA is making a bona fide effort to put the study back on track and to complete it swiftly. The plan is for the initial report to be submitted on approximately October 1, 1987.

Because I continue to consider this study vitally important in determining the potential needs of Vietnam-era veterans for readjustment counseling and related services, I believe that, as originally conceived, it definitely should be considered in the planning for the future of the Vet Center program. To accomplish that result, section 4(b) of S. 6 would provide that if, as it appears nearly inevitable at this point, the Administrator does not have the benefit of study results in time to take them into account in preparing the April 1, 1987, transition-planning report, the start of the transition period would be delayed one year, until October 1, 1988. S. 279 would simply mandate the one-year delay without reference to the availability of the initial report on the study. In addition, both bills would extend for a similar one-year period the due date of the three report requirements that I just described. Section 4(b) of S. 6 would also amend the requirements relating to two of the reports -- first, to require the Administrator, as part of the report on plans for the transition of the Vet Center program, to comment on the desirability of expanding eligibility for readjustment counseling to veterans of other wars, and, second, to require that the report on the first year of the transition contain the Administrator's views on whether the transition requirement should be modified.

I am delighted with the support for these provisions, including the VA's, in the testimony to be presented at these hearings, and I intend to move forward with legislation based on these provisions at the Committee's markup next week. It is long past time for the law to be changed to reflect the reality of the delay in the PTSD/psychological problems study. Moreover, the workload for the readjustment counseling program is not declining. In FY 1986, 162,000 new visits were made and a total of over 880,000 counseling sessions were provided. Both of these figures are greater than the FY 1985 figures.

Budget for Veterans' Programs

Finally, regarding the budget for veterans' programs, I regret very much that I cannot be very positive. The Administration's budget is once again inadequate when it comes to honoring our commitments to those whose service and sacrifices have kept our nation strong and free in the 20th Century. This OMB-wrung-out document lacks vision and vitality. It is unfair to today's veterans and turns a blind eye to tomorrow's needs.

To provide for vital, relevant programs for fiscal year 1988 and on into the 90's, I will be proposing and seeking the Committee's support for a number of changes in what the Administration has submitted:

- First, in the area of VA health care, we must reject the Administration's proposals to eliminate 4,400 FTEE's from VA medical facilities and to bar all VA nursing home construction. With a more realistic base restored, we must move forward to meet the challenges of today and tomorrow with proposals to help meet the needs of older veterans in more effective, compassionate ways and to move forward aggressively to provide treatment programs that avoid unnecessary institutionalization; to promote non-institutional alternatives to long-term inpatient care; to make available to the VA the resources it needs to overcome severe health personnel shortages; to provide adequate funds for high-priority medical and rehabilitation research into the diseases and disabilities that afflict veterans; to provide resources to meet additional costs of caring for veterans with AIDS; and to spur VA research which I believe could contribute in a very significant way to finding a cure for this dread killer.

We must not turn our backs on drug and alcohol abuse by discontinuing in fiscal 88 the special $10.3 million in funding that the Congress provided in the Anti-Drug Abuse Act of 1986 for VA drug and alcohol treatment programs. That was not intended to be a one-shot, nine-month blip in the fight against substance abuse; it was intended as the starting point in a new, sustained war against drugs. I will propose continued funding for this effort of such great importance to our veterans and to our society.

- Second, regarding benefits programs, Congress should, once again, reject the Administration's unfair proposals to eliminate millions of war veterans' entitlements to a plot allowance -- as an alternative to burial in a national cemetery -- and to impose a special tax on veterans in the form of an increased fee -- this time a 150-percent increase -- on each veteran using his or her VA loan-guaranty entitlement.

- Third, we must provide cost-of-living increases for a number of service-connected benefits -- specially adapted housing, the automobile assistance allowance, and the service-connected burial benefit -- for which COLA's have not been provided in several years.

- Fourth, Department of Veterans' Benefits staffing has been spread very thin during the few years and -- despite the continuing extraordinarily high numbers of loan guaranty applications, the demand for increased manpower to deal with delinquencies and foreclosures, and the start-up activities involved in administering the New GI Bill -- the Administration proposes a nearly 300-FTEE reduction. Those 300 employees are badly needed to provide benefits counseling and outreach and claims processing and adjudication services and to administer the loan guaranty program.

- Fifth, nothing in this budget provides any impetus for dealing with the tragedies of joblessness or homelessness among veterans. No funding is proposed for the Veterans' Job Training Act program, for which funding has already run out; the numbers of veterans employment representatives at local employment offices is proposed to be cut by 195 FTEE's; and the DVB personnel cut includes 95 benefits counsellors who are needed to provide outreach and assistance to homeless, unemployed, and other veterans who might otherwise be unable to use their VA benefits to better their lives.

The budget is flat wrong in each of these respects. I will be proposing that FY 1987 supplemental appropriations be authorized and then provided to get VJTA back into operation, that additional funding be authorized and provided for that program in FY 1988, that funding for LVER's be restored, and, as I have noted, that DVB staffing be restored. In S. 477, we are developing a program to meet the shelter, employment, mental health, and other needs of homeless veterans, and we intend to amend that bill to reactivate VJTA this year and to make sure that homeless veterans do not have to wait until they are out of work for 10 weeks before they qualify for a VJTA job-training slot.

- Sixth, it has been over six years since the VA loan guaranty maximum has been increased. Since then, housing costs have risen by 27 percent, in the case of existing homes, and 41.5 percent, in the case of new homes. The Administration's budget proposal includes no increase for the loan guaranty maximum. As I have in each of the past two Congresses, I am again proposing an increase in order once again to enable veterans in high-cost housing areas to use this benefit.

- Finally, the budget must also provide for the enactment of a radiation-exposure compensation measure.

Before closing, I would like to take a brief moment to comment on the White House-initiated welfare reform program. If the press descriptions of it are anywhere near accurate -- and I have reason to believe they are -- it would entail giving state governments control over eligibility for, and the resources needed to provide, VA pension and health-care for certain veterans, as well as authority over the level of benefits provided to veterans.

That is a totally unacceptable policy; it is antithetical to our entire system of veterans' benefits. These are federal programs and federal obligations for veterans of the United States Armed Forces. I will do all I can to ensure that no such proposals are enacted and to ensure that this Committee's jurisdiction over such welfare reform proposals affecting veterans' benefits and programs is vindicated.

Moreover, let me make clear that there is a lot more wrong with that reported proposal than its veterans' aspects, and I intend to look closely at any effort to permit local authorities to deprive low-income families of hard-won benefits, such as Head Start and child care.

Again, thanks to all of the witnesses for their testimony on the issues before us. I look forward to hearing from each of you.

STATEMENT OF DENNIS DeCONCINI
SENATE COMMITTEE ON VETERANS' AFFAIRS
PUBLIC HEARING ON VA'S FY 1988 BUDGET
WEDNESDAY, FEBRUARY 18, 1987
12:30 PM

MR. PRESIDENT, MEMBERS OF THE COMMITTEE, AND WITNESSES FROM THE ADMINISTRATION, VETERANS ORGANIZATIONS,, THE MORTGAGE BANKING INDUSTRY AND FROM HOMELESS ADVOCACY GROUPS, I AM PLEASED TO BE ABLE TO PARTICIPATE IN THIS HEARING AND WOULD LIKE TO COMMEND THE CHAIRMAN FOR EXPEDITIOUSLY SCHEDULING HEARINGS ON THE FY 88 BUDGET PROPOSALS AS WELL AS ON THE ISSUES OF AN EXTENSION OF THE VET CENTERS PROGRAM, HOMELESS VETERANS AND THE NEW GI BILL.

I BELIEVE THE MEMBERS OF THE COMMITTEE, IN A NON-PARTISAN FASHION, WILL DISAPPROVE THE ADMINISTRATION'S PROPOSALS TO REDUCE VA HEALTH CARE PERSONNEL BY ALMOST 4,000 OVER THE NEXT THREE YEARS. QUITE FRANKLY, I DO NOT UNDERSTAND WHY THE ADMINISTRATION CONTINUES TO SEND PROPOSALS TO CONGRESS WHICH THEY KNOW ARE GOING TO BE REJECTED. IF THERE IS ONE ISSUE THAT I AM CONVINCED THE MEMBERS ON BOTH SIDES OF THE CAPITOL WILL SUPPORT, IT IS A HEALTH CARE STAFFING LEVEL FOR THE VETERANS ADMINISTRATION WHICH WILL INSURE QUALITY CARE FOR VETERAN PATIENTS. AT THE VERY LEAST, I INTEND TO SUPPORT THE 194,140 STAFFING LEVEL THAT WAS MANDATED BY CONGRESS LAST YEAR. WHILE THE FY 88 BUDGET REQUEST FOR MEDICAL CARE IS $9.95 BILLION, OR APPROXIMATELY $550 MILLION ABOVE THE FY 87 APPROPRIATED LEVEL, IT IS $171 MILLION BELOW WHAT CBO ESTIMATES WILL BE REQUIRED TO FUND THE CURRENT LEVEL OF VA MEDICAL SERVICES IN 1988. WHAT THAT MEANS IN HUMAN TERMS IS THAT 13,548 FEWER INPATIENTS WILL BE SERVED BY THE VA HEALTH CARE SYSTEM.

I HOPE THAT THE COMMITTEE WILL ACT FAVORABLY ON MY BILL, S. 279, TO EXTEND THE VET CENTERS FOR AN ADDITIONAL YEAR. I BELIEVE THE LATEST CENTER FOR DISEASE CONTROL STUDY SHOWING A 17 PERCENT HIGHER POST SERVICE MORTALITY RATE AMONG VIETNAM COMBAT VETERANS THAN AMONG THEIR NON-COMBAT PEERS IN KOREA, GERMANY AND THE UNITED STATES IS JUSTIFICATION ENOUGH FOR THE CONTINUATION OF THIS PROGRAM. BUT CLEARLY THE PROGRAM SHOULD NOT BE PHASED INTO THE VA HEALTH CARE SYSTEM WITHOUT THE BENEFIT OF THE STUDY WHICH HAS BEEN MANDATED BY CONGRESS. BECAUSE THAT STUDY HAS BEEN DELAYED, IT IS ONLY APPROPRIATE THAT THE VET CENTER PROGRAM BE EXTENDED FOR AT LEAST A YEAR UNTIL CONGRESS HAS AN OPPORTUNITY TO REVIEW ITS RECOMMENDATIONS.

I AM AN ENTHUSIASTIC ADVOCATE OF THE GI BILL AND AM PLEASED THAT THE ADMINISTRATION IS PROPOSING TO MAKE THE PILOT PROJECT PERMANENT. DESPITE THE MISGIVING OF THE ADMINISTRATION AND SOME MEMBERS OF THE SENATE WHEN WE AUTHORIZED NEW GI BILL PILOT PROJECT IN 1985, I BELIEVE THAT THERE IS LITTLE ROOM FOR DISPUTE NOW THAT THAT PROGRAM HAS SIGNIFICANTLY INCREASED BOTH THE QUALITY AND QUANTITY OF MILITARY RECRUITS AND IMPROVED RETENTION RATES. I AM CONFIDENT THAT THE COMMITTEE WILL, WITH SOME ADJUSTMENTS, RESPOND FAVORABLY TO THIS PROPOSAL.

I STRONGLY OPPOSE THE ADMINISTRATION PROPOSAL TO INCREASE THE VA LOAN ORIGINATION FEE FROM 1% TO 2.5%. THIS IS ANOTHER PROPOSAL THAT WE HAVE SEEN BEFORE AND WHICH HAS BEEN

REJECTED BY CONGRESS. THE VA HOME LOAN GUARANTY PROGRAM IS THE MOST OFTEN USED BENEFIT OF VETERANS. IF THE ORIGINATION FEE IS INCREASED, MANY VETERANS WILL SIMPLY BE UNABLE TO AFFORD HOUSING, EVEN THROUGH THE VA, AND I DO NOT BELIEVE CONGRESS WILL ALLOW THAT TO HAPPEN. YOU CAN COUNT ON THIS SENATOR TO VEHEMENTLY OPPOSE ANY INCREASE IN THE HOME LOAN ORIGINATION FEE.

I LOOK FORWARD TO THE TESTIMONY TO BE PRESENTED HERE TODAY AND HOPE THAT WE CAN WORK TOGETHER TO FASHION A BUDGET WHICH IS TRULY REPRESENTATIVE OF THE NEEDS OF THE VETERAN COMMUNITY. AS I HAVE SAID BEFORE THIS COMMITTEE MANY TIMES IN THE PAST, I BELIEVE VETERANS MUST REMAIN AT THE TOP OF THE NATIONAL AGENDA, DESPITE OUR DEFICIT PROBLEMS. TO SHORT CHANGE OUR VETERANS IS TO SHORT CHANGE OUR NATIONAL SECURITY. THANK YOU.

REMARKS
SENATOR JOHN D. ROCKEFELLER IV
VETERANS' AFFAIRS HEARING ON ADMINISTRATION'S BUDGET, EXTENSION OF VETS' CENTERS, AND VETERANS HOMELESS LEGISLATION
February 18, 1987

I would like to start by commending Senator Cranston, our Chairman, for the enormous effort he and his staff have made in the recent weeks to lay out an agenda for this committee. I know you have been asking the VA many questions about the Administration's budget prior to this hearing, and I believe that work will make it possible for this committee to understand their proposals and to take action on the budget that will best serve the interests of our nation's veterans.

I'll turn now to our VA Administrator, Tom Turnage, to make some comments. Mr. Turnage, in these times when most proposals have to do with budget cuts, I'm sure you aren't thanked for your agency's actions all that often. But I feel it would be both proper and important to express my appreciation for some of your recent actions which will be truly helpful to the veterans of West Virginia. As you know, the VA's FY'88 budget contains $43.4 million for the expansion and renovation of the Huntington VA Medical Center. This is very good news for that part of the state -- for far too many years, this veterans hospital has been cramped, inadequately equipped, and understaffed. Your decision to start the major construction and improvements needed at the Huntington medical center ensures better quality medical care in the near future for thousands of veterans.

In addition, I wish to express my thanks for your recent help in response to a request I made concerning the VA's plan to construct a new access road to the Huntington Medical Center. Though some unfortunate disagreement had emerged between the community of Huntington and the VA over whether the federal government should pay anything for the part of public park space that will be lost because of the road, I was very pleased with your willingness to reconsider this issue after I contacted you.

Your agreement to reimburse Huntington ensures that "everyone wins" in this project -- local residents, the VA, and the veterans.

I must, at the same time, point out where I have some serious differences with the VA. The veterans budget you have submitted for this coming fiscal year has $350 million of cuts in current services. Though that's not a huge decrease in light of the VA's $27.7 billion budget, the cuts seem to come in a very harsh form -- in an unacceptable form in certain cases.

The veterans community is speaking of a VA that is "breaking promises." After this committee worked long and hard to develop some way to control VA medical costs, and passed legislation that introduced the concept of "co-payments" and "deductibles" for certain veterans, now you are proposing a drastic measure to deny what you might call "low-priority" veterans any care at VA medical facilities.

Mr. Turnage, we just can't accept this. The 10% of the nation's veterans who use the VA health care system do for good reason. Turning them away, and perhaps forcing some to go on Medicaid and forego essential health care, does not seem to me to be an option.

Finally, your staff are aware of my other concerns: cuts in beneficiary travel, the lack of funds for the Veterans Job Training Program, threatened reductions of staff in our VA hospitals, the increase in veterans home loan fees. I sincerely hope you will work with this Committee in taking a look at how to how to prevent any harm from being done to the benefits and services owed to veterans.

Mr. Chairman, again, thank you. I look forward to working with you on the budget, and to pursing the legislation which I am enthusiastically co-sponsoring to extend the authority for Vets' Centers and to help our homeless veterans.

STATEMENT
SENATOR GEORGE J. MITCHELL
COMMITTEE ON VETERANS' AFFAIRS
FEBRUARY 18, 1987

Good afternoon, Mr. Chairman. It's a pleasure to be with you and the other members of the Committee to receive testimony regarding the President's proposed Fiscal Year 1988 budget for veterans' programs and benefits and the two other piece of legislation on our agenda, S. 279 and S.477.

The budget calls for $27.6 billion in budget authority, which is about $548 million above the current year. Benefits account for about $15.4 billion. I'm pleased to see that the President has proposed that both compensation and pension recipients would receive a 3.5% COLA, effective December 1, 1987.

Medical care accounts for $10.3 billion, a figure that is $414 million over present budget authority. But, because $393 million of that amount would go to cover payroll and new civil serive retirement costs, the budget may actually result in a dimimished health care service capacity for the VA. That worries me greatly.

The budget also includes several legislative proposals that I believe must be seriously questioned by the Committee. Those include;

1. the proposal to index disability compensation to the annual change in the Consumer Price Index as is done for social security recipients.

2. the suggestion that Congress should rescind spending in FY87 and delete all funding in FY88 necessary to provide health care for nonservice connected veterans with incomes above $20,000, so-called catergory C's. I believe cuts of this magnitude, $75 million in FY87, would limit the VA's ability to provide health care to service connected patients.

3. finally, the proposal to raise the VA home loan origination fee from one percent to 2.5% effective June 1, 1987.

Mr. Chairman, I know you have submitted written questions to the VA prior to this hearing. There is a great deal of ground to cover during this hearing, so in the interest of time, I will also limit my questions this afternoon to several Maine specific issues.

Thank you Mr. Chairman.

STATEMENT BY DONALD E. SHASTEEN
ASSISTANT SECRETARY FOR
VETERANS' EMPLOYMENT AND TRAINING
SENATE VETERANS AFFAIRS COMMITTEE
FISCAL YEAR 1986 BUDGET REQUEST

February 18, 1987

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to discuss with you the Fiscal Year 1988 Department of Labor Budget proposal as it pertains to veterans' employment and training programs.

Before I provide details about budget matters, I would like to mention a few items about which we in the Office of the Assistant Secretary for Veterans' Employment and Training (OASVET) and Veterans' Employment and Training Service (VETS) are especially pleased and enthusiastic. Making the OASVET the principal focus for administering veterans' programs within the Department has proven beneficial. The Vietnam-era veterans' unemployment rate of 4.9 percent now is below that of the general labor force in contrast to the situation four years ago. We believe improvements in the delivery of services have contributed to this progress.

For two years now we have operated a competitive grants program under the Job Training Partnership Act (JTPA Title IV-C), directed to meeting the needs of Vietnam-era, recently separated, and service-connected disabled veterans. As our experience grows, so does our success. We currently are moving ahead to maximize the use of Title IV-C funds. In PY 1987 we will implement a major change in the development and administration of Title IV-C programs. Only State JTPA administrative entities will be able to apply for the majority (eighty percent) portion of funds and a 100% match will be required from each recipient. We hope to bring Title IV-C more into line with the JTPA planning process utilized under Title II. We believe this will act as a lever to open many other employment and training opportunities for veterans.

We have also had the opportunity to work in cooperation with the Veterans Administration on the Veterans' Job Training Act (VJTA) program. Under this emergency training program, approximately 52,000 long-term unemployed veterans have been placed in training positions. Although this program is scheduled to end in FY 1988 because of the significant decline in veterans' unemployment, we plan to use the "case manager" concept in other programs.

In FY 1986 we implemented the "case manager" concept, under which the State Job Service agencies' Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representative (LVER) staff took individual responsibility for ensuring the delivery of appropriate services to the long term unemployed who were VJTA program eligibles. Because we believe this concept worked well under the VJTA program, VETS has provided funds to the University of Colorado at Denver to establish a training institute for approximately 1,300 LVERs and DVOPs. We are providing a unique opportunity for bringing together LVERs, DVOPs and ES personnel to learn new concepts and to gain insight into different approaches in serving veterans. Also they are being trained in carrying out their responsibilities under the "whole person concept."

In the last program year, 17.5% of veteran applicants, 17.8% of Vietnam-era veterans, and 21.4% of disabled veterans were placed in jobs by the State Employment Service system. Current estimates indicate that these achievements will be maintained in the current program year.

In addition to the employment and training services programs and rules administered by the agency, the VETS also provides services authorized by Chapter 43 of Title 38, U.S. Code, to protect the reemployment rights of veterans, National Guard members and reservists. Such rights include not only pay and seniority protections while the individuals are on active duty, but also protection of pension rights. With such protection, our national defense is enhanced since individuals, particularly reservists, would otherwise be reluctant to risk their full-time civilian jobs in order to serve in the military. Through efficient utilization of agency staff and emphasis upon settling cases through mediation rather than litigation, the agency is reducing case processing time, responding to more inquiries, and achieving resolution of more cases than in the past.

Our commitment to help long-term unemployed veterans includes the hard-to-reach homeless veterans. Last year, I commissioned a study to assess homelessness among the veterans' population as well as initiatives to deal with it and to make recommendations for appropriate action.

The study found that veterans comprise a large segment of the homeless. Having abandoned the "Establishment" system, these veterans are resistant to availing themselves of existing services. The Jobs for Homeless Veterans program addresses the special need to reach out to these veterans and integrate them back into the employment mainstream. Besides employment training, this program recognizes that other needs--chronic health problems, clothing--must be met to assure their successful return to gainful employment. The Jobs for Homeless Veterans program provides for linkages with local service providers to meet these multiple needs.

The program features grants to ten major cities, of which three are now in place--in Boston, Denver, and New Orleans,--and several more are close to being finalized. We expect all ten to be approved by the end of March.

Overall, it is accurate to say that the Department is providing better services, more cost effectively, to veterans now than in the past, and that veterans' unemployment is declining significantly.

Our budget request for Fiscal Year 1988 is $138.6 million. Included in this amount is $123.5 million for grants-to-States, of which $72.0 million is for DVOPs and $51.5 million is for LVERs. The funding is for 279 Federal positions and 3,395 State agency positions allocated through grants-to-States.

The agency's request for DVOP and LVER funding is based upon the intention to maintain DVOP staff levels in accordance with the staffing formula set forth in section 2003 A of Title 38, U.S.C.. DVOP staff provide direct service to veterans, as prescribed in the United States Code, and one position is allocated for each 5,300 Vietnam-era and disabled veterans residing in each State. These specialists are mandated by law to provide employment and employability development services to eligible veterans, with a priority to provide these services to the most disadvantaged veterans, e.g., the disabled and Vietnam-era veterans with severe barriers to employment.

LVER staffing will be reduced due to a demonstrated lack of need. Local Veterans Employment Representatives do not provide services directly to veterans to the degree that DVOP staff do, but instead are responsible for functional supervision of local office services to veterans. Since State agencies are exceeding the quantitative performance standards, there is not the need for as much supervision as is now provided. The agency will provide funding for 195 fewer LVER staff years in FY 1988 than in FY 1987. This will be effected primarily by reducing positions from full-time to a part-time basis in an estimated 450 local offices. The actual number affected will, of course, be dependent upon the actual position costs for FY 1988.

Emphasis will continue in FY 1988 on DVOP and LVER involvement in intensive job development and placement activity. In addition, these specialists will continue their efforts in coordination with service providers under the JTPA, community-based service organizations, and other supportive service agencies to ensure the provision of comprehensive services to veterans under the case manager/whole person concept.

For the JTPA Title IV-C program administered by the agency, the competitive grant application system for award of grants to the State and/or Service Delivery Areas will continue. The budget amount for Veterans' Employment Programs under JTPA, Title IV, Part C, is $10.0 million for FY 1988. As you are aware, Mr. Chairman, this funding level is affected by a formula contained in the Job Training Partnership Act. As I stated earlier, we expect that we will continue to have an effective program due to the competitive structure and the preference given to those applicants that match or exceed the grant amount with local funds.

In closing, I would like to thank you for this opportunity to discuss the FY 1988 budget and how it affects veterans' programs. I am confident that with the requested budget we can continue the progress toward secure employment for all veterans and reservists, who with their dependents comprise approximately half of our nation's populace. I will be pleased to answer any questions you may have.

U.S. Department of Labor

Office of the Assistant Secretary for
Veterans' Employment and Training
Washington D.C. 20210

MAR 18 1987

MEMORANDUM FOR: DONALD E. SHASTEEN

Jeffrey C. Crandall

FROM: JEFFREY C. CRANDALL
Director
Office of Field Operations

SUBJECT: Your Memo of February 18, 1987 --
Request for Documents

Your memorandum requested information be gathered from the field staff relating to the Veterans' Job Training Act (VJTA) "Case Manager" program and publicity efforts made to bring this program before the public. This information has been reviewed and the following is a summary of the kinds of efforts made.

It was found that information on the VJTA itself and the "Case Manager" program were both disseminated through a wide variety of methods. The most widely used techniques were interoffice memoranda, pamphlets, newspaper/magazine articles, press releases, local office bulletins and program letters, TV and radio appearances, desk aides, group training sessions and performance awards for those who increased placements in this program.

Interoffice memoranda that explained the program and changes made were utilized in all States surveyed. This was the most common method of internal information dissemination. Letters to employers and to veterans and veteran organizations also were used rather extensively. Most States utilized the pamphlet, "The Job Connection," published by the Employers' National Job Service Committee, while others such as Nevada, Hawaii and Maryland developed their own. These mailings ranged from 1,250 in Rhode Island, 2,100 letters to employers in Maryland, 22,000 in Alabama and over 70,000 in Florida. Alabama alone distributed 115,000 pamphlets and Ohio distributed 20,000.

Other forms of publicity were the press releases distributed by DOL, which were used extensively. Montana, for example, while a geographically large State, utilized releases in 87 newspapers throughout the State. Radio and television appearances were made to promote the program. The SDVETS in South Dakota appeared on Station KELO (CBS affiliate) to discuss VJTA. This program was seen throughout South Dakota and also in parts of Minnesota, Iowa, Nebraska, Wyoming, Montana and North Dakota.

The field staff were requested to provide information on veterans counseled for the VJTA program. There is no data available relevant to counseling specifically for VJTA applicants. However, counseling figures for PY 1985 show that there were 209,660 veterans counseled. Second Quarter data for PY 1986 shows 87,804 veterans received counseling. From our local office evaluation reports we know that a significant portion of these VJTA eligible veterans received counseling.

Most States have implemented the "Case Manager" method for follow-up. In reviewing the data, not all States used the term, "Case Manager" but those who did not have published implementing instructions that operate under that principle.

There were three States which did not implement the "Case Manager" program. The first was Pennsylvania, which still has not implemented this methodology because they felt that the approach was time consuming and counter-productive for a temporary program. Preparations were made to send out a Job Service Bulletin that outlined the "Case Manager" concept but it was never published because the VA announced that funds were almost depleted. Virginia and the District of Columbia took similar stances. If the VJTA program is reauthorized, we will take steps to ensure participation by those States.

Attachment

U. S. DEPARTMENT OF LABOR - EMPLOYMENT SERVICE PROGRAMS
QUARTERLY REPORT

FOR PROGRAM YEAR 1986

QUARTER 2

CUMULATIVE YEAR-TO-DATE

NATIONAL SUMMARY

	TOTAL APPLS.	TOTAL VETS.	VIET. ERA VETS.	DISAB. VETS.	SPECL. DISAB. VETS.	U I CLAIMANT	MSFW	INTERSTATE
TOTAL APPLICANTS	9,835,116	1,334,006	611,759	69,502	25,733	3,447,279	71,692	
MALE	5,474,368	1,273,023	594,969	66,694	24,718			
FEMALE	4,360,748	60,983	16,790	2,808	1,015			
ECON DISADV	984,190	97,867	42,733	5,190	1,647			
POSS. DISQ	56,299							
SOME REPORT. SERV	3,426,094	678,426	315,705	38,317	14,431			
COUNSELED	256,448	87,804	44,638	9,696	4,243			
REFERRED TO TRAIN	86,864	18,851	9,985	1,593	636			
PLACED IN TRAIN	62,125	9,338	4,836	866	336			
REFERRED TO JOB	3,614,698	482,102	227,207	28,887	11,345		40,836	4,387
REF. TO FCJL JOB	425,117	107,105	53,396		3,229			
PLACEMENT TRANS.	1,807,048	264,349	126,847	16,472	6,456	237,404	68,356	1,745
PLACED/OBTAINED EMP	1,553,568	240,387	107,686	14,657	5,734			
INDIV. PLACED	1,369,631	187,663	87,092	11,950	4,795	229,739	34,611	1,684
OVER 150 DAYS	872,397	135,685	62,493	8,902	3,621			
FCJL JOB	131,547	29,907	14,672		1,122			
NO. FED. CONTRACTORS	15,044							
NO. OPENINGS REC.	2,447,649							
FCJL OPENINGS	178,365							
ACCRUED EXPENDITURES	270,114,650							

THIS DATA CONTAINS ERRORS

U. S. DEPARTMENT OF LABOR - EMPLOYMENT SERVICE PROGRAMS
QUARTERLY REPORT

FOR PROGRAM YEAR 1985

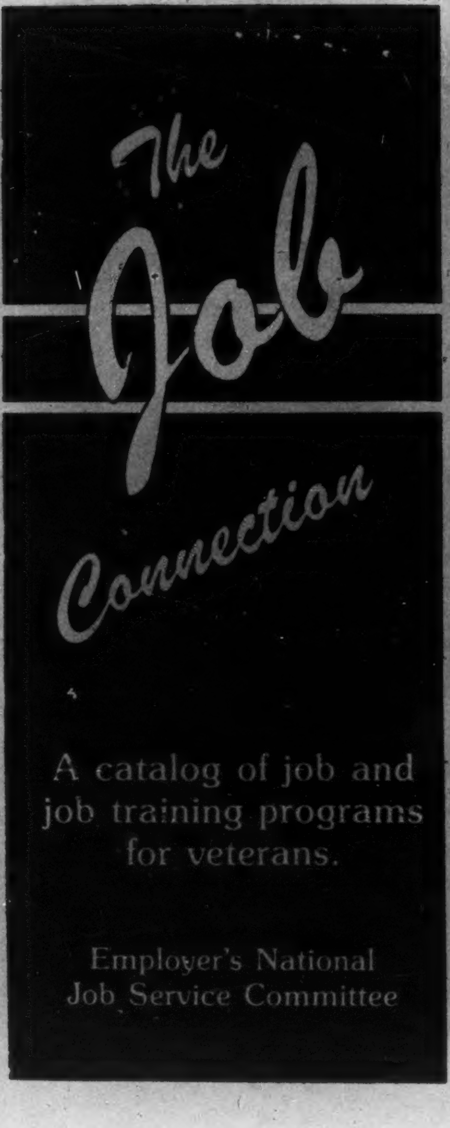
QUARTER 4

CUMULATIVE YEAR-TO-DATE

NATIONAL SUMMARY

	TOTAL APPLS.	TOTAL VETS.	VIET. ERA VETS.	DISAB. VETS.	SPECL. DISAB. VETS.	U I CLAIMANT	MSFW	INTERSTATE
TOTAL APPLICANTS	19,911,505	2,678,232	1,206,456	135,781	49,896	6,501,367	181,272	
MALE	10,367,006	2,431,678	1,122,659	124,374	45,906			
FEMALE	9,374,378	125,375	35,842	5,002	1,751			
ECON DISADV	2,117,815	253,009	90,344	10,614	3,753			
POSS. DISQ	112,433							
SOME REPORT. SERV	6,299,245	1,352,737	710,715	84,247	32,049			
COUNSELED	640,534	209,660	103,648	21,659	9,515			
REFERRED TO TRAIN	211,036	46,229	23,561	3,689	1,437			
PLACED IN TRAIN	157,198	22,493	11,702	2,087	858			
REFERRED TO JOB	7,291,373	1,114,843	518,040	64,065	24,434		95,934	17,717
REF. TO FCJL JOB	939,479	228,000	114,657		6,518			
PLACEMENT TRANS.	4,856,308	760,072	352,596	45,606	17,535	767,706	143,0[illegible]8	7,889
PLACED/OBTAINED EMP	3,832,216	544,599	231,099	33,207	12,736			
INDIV. PLACED	3,429,905	469,580	216,810	20,984	11,229	565,295	77,840	7,381
OVER 150 DAYS	2,240,950	355,285	163,333	22,496	8,771			
FCJL JOB	286,675	67,026	34,735		2,414			
NO. FED. CONTRACTORS	29,931							
NO. OPENINGS REC.	6,950,360							
FCJL OPENINGS	449,473							
ACCRUED EXPENDITURES	738,906,222							

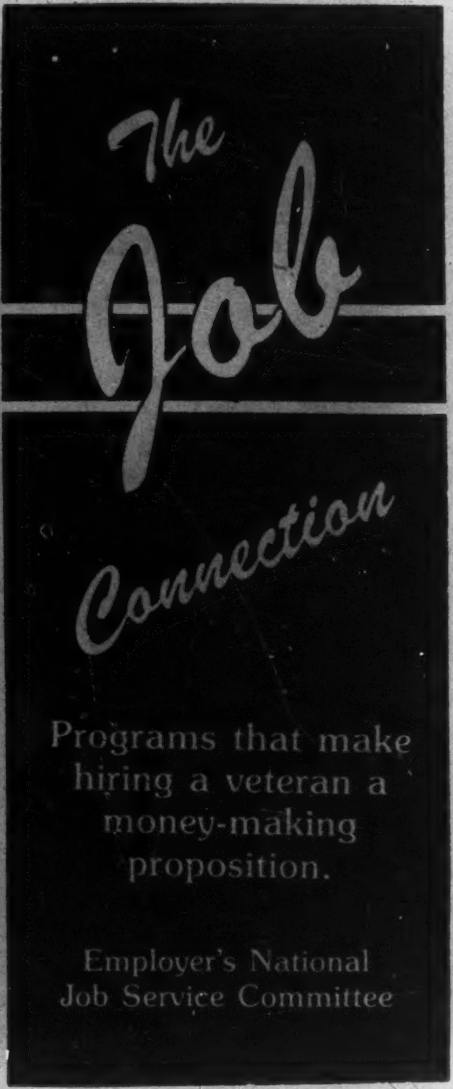
THIS DATA CONTAINS ERRORS



The Job Connection

A catalog of job and job training programs for veterans.

Employer's National Job Service Committee



The Job Connection

Programs that make hiring a veteran a money-making proposition.

Employer's National Job Service Committee

Veterans Job Training Act*

Employers may receive up to $10,000 to cover half a veteran's wages during a normal training period!

HOW IT WORKS

The Veterans Job Training Act of 1986 (P.L. 99-238) offers one of the best incentive packages ever for hiring and training a qualified veteran. The Veterans Administration will pay an employer half the veteran's entry wages up to nine months - or 15 months for veterans with a disability rating of 30 percent or more. The maximum possible payment is $10,000.

Counseling from Local Veterans Employment Representatives at all Job Services is available upon request for potential employers and applicants alike.

WHO IS ELIGIBLE

A veteran must have served during the Korean Conflict (6/27/50 to 1/31/55) or the Vietnam Era (8/5/64 to 5/7/75), be unemployed at the time of application and have been unemployed for 10 of the 15 immediately preceding weeks. The veteran must also have been discharged from active military service under conditions other than dishonorable. If the veteran served 180 days or less, he or she must have been discharged because of service-connected disability, or in receipt of VA service connected compensation.

Employers must certify they intend to hire the veteran upon completion of training. Adequate training facilities must be available; wages and benefits must be no less than those normally paid; and training cannot be for a position for which the veteran already qualifies. The VA is specifically looking for: occupations in growth industries; those requiring use of the latest technological skills; or those for which the demand exceeds the supply either nation-wide or in the trainee's work locale.

Participants in this program may not be enrolled in any other Federal incentive program such as those listed in this brochure.

HOW TO APPLY

Veterans and potential employers alike may apply with the Local Veterans Employment Representative (LVER) at any local Job Service Center or VA Regional Office.

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* Formerly titled the Emergency Veteran's Job Training Act

Effective 2-1-86

Apprenticeship/OJT

The Veterans Administration may supplement a trainee's starting wage, enabling the employer to provide a job where none existed before.

HOW IT WORKS

Eligible veterans may pursue, on a full-time basis only, an approved Apprenticeship or On-The-Job Training with qualified employers. As with the Veterans Jobs Training Act, this may result in remarkable savings for the employer during the training period.

Under Apprenticeship, the Veterans Administration will supplement the veteran's starting salary, paid by the employer. The amount of money paid to the veteran by Veterans Administration decreases every six months, according to a prescribed salary schedule.

Under On-The-Job Training, the entrance wages, paid by the employer, must be at least one-half the salary paid for the specific job. The employer will be expected to increase the salary on a regular schedule until the veteran is receiving 85 percent of the wages for that job by at least the last full month of the training period, which may not exceed two years.

The Veterans Administration must approve Apprenticeship programs. For OJT, the Veterans Administration will begin payments upon certification.

WHO IS ELIGIBLE

Any veteran who served 181 days active duty, any part of which occurred prior to Jan. 1, 1977, is entitled to subsistence for Apprenticeship/OJT training at the rate of one and a half months of training for each month of active duty, not to exceed 45 months total. Applicants must have been discharged from active duty under conditions other than dishonorable.

The Veterans Administration defines an apprenticeship as a skilled trade learned in a practical way through a structured, systematic program of on-the-job training. It must be clearly identified and commonly recognized throughout an industry.

For OJT, the training content of the course must be adequate enough to qualify the veteran for appointment to the job for which he is being trained, and there must also be reasonable certainty that the job will be available to him/her at the end of the training period.

TIME LIMIT

Benefits will expire 10 years from the date of release from active duty, or on Dec. 31, 1989, whichever date comes first.

Job Training Partnership Act (JTPA)

Job Service offices were established with the passage of the Wagner-Peyser Act of 1933. Their basic role is to match worker skills with employer job requirements. The first major amendments to the Wagner-Peyser Act were contained in the Job Training Partnership Act (JTPA) of 1982, which became effective October 1, 1983. Under JTPA, many responsibilities formerly controlled by the federal government, have been transferred to the state and local governments. States now have considerable flexibility in designing training programs to meet local labor market conditions. This is accomplished through the appointment of Private Industry Councils (PICs), comprised of representatives of business, labor and local elected officials.

HOW IT WORKS

Veterans are among targeted groups of individuals eligible for federally funded training programs under Title IV C of the Job Training Partnership Act. The availability of training programs may vary from time to time depending upon the funding made available through the PICs.

Job Service staff will assist veterans in determining their eligibility for available training which may include OJT, vocational education, classroom instruction or any combination of these.

For direct information, contact the local Job Service office or Local Veteran Employment Representative in your area.

Job Service Employer Committees (JSECs)

As financier and customer of the Job Service, employers from all sizes and types of firms have volunteered their time and expertise since 1971 to the Job Service as members of Job Service Employer Committees (JSECs). Today, more than 28,000 employers participate in over 1,000 local committees.

Additionally, employers participating in JSECs involve themselves in the JTPA process by serving on over three-fourths of the Private Industry Councils (PICs) nationwide and on over half of the State Job Training Coordinating Councils.

HOW IT WORKS

Operating independently, employers sit down with local Job Service personnel to discuss their needs and to educate themselves about programs and services which may reduce the cost of hiring and training. Recognizing that the Job Service is funded by employer paid taxes under the Federal Unemployment Tax Act (FUTA), these employers seek the greatest possible return on their investment. It is a straight forward, grass roots process used in all 50 states, Puerto Rico and the District of Columbia.

GETTING INVOLVED

Call your local Job Service office and ask about "the employer's committee." Attend a meeting and learn about the services you fund. Volunteer your time to assist the Job Service in improving the quality of service to both employers and applicants.

Job Service Employer Committees
Linking Business and Government

Information Sources

The U.S. Department of Labor is involved in a variety of measures to assist veteran jobseekers. Special emphasis is given to assisting disabled veterans and veterans of the Vietnam era. All veterans, however, receive preference over nonveteran jobseekers in services provided by local Job Service offices.

HOW IT WORKS

Job Service is the delivery agent for federally funded veterans employment and training programs. There are Job Service offices in every state, each one staffed with at least one specialist to work exclusively with veterans.

Local Veterans Employment Representatives (LVERs) are responsible for all veteran employment and training services provided by the Job Service office staff. LVERs provide peer counseling for veterans and assist them in making decisions concerning employment and training. The LVER should be considered a resource person for both veterans and employers.

Disabled Veterans Outreach Program Specialists (DVOPSs) perform outreach services for all veterans, but primarily for disabled veterans who may require special assistance. DVOPS develop networks of employers and community-based organizations in order to maximize and coordinate the efforts of all local agencies to put disabled veterans back to work.

To Find A Job... Or Fill A Job

Consult your directory for the number of the Job Service office nearest you.

LISTED UNDER:

Alabama	Dept. of Industrial Relations, Employment Div.
Alaska	Employment Security Div., Dept. of Labor
Arizona	Dept. of Economic Security
Arkansas	Employment Security Division
California	Employment Development Dept.
Colorado	Dept. of Labor & Employment
Connecticut	Employment Security Div., CT Labor Dept.
Delaware	Dept. of Labor, Employment & Training Div.
Dist. of Columbia	Dept. of Employment Services
Florida	Dept. of Labor & Employment Security
Georgia	Employment Security Agency
Hawaii	Dept. of Labor & Industrial Relations, Employment Serv.
Idaho	Dept. of Employment
Illinois	Dept. of Employment Security
Indiana	Employment Security Division
Iowa	Job Service of Iowa
Kansas	Dept. of Human Resources
Kentucky	Dept. for Employment Services
Louisiana	Office of Employment Security
Maine	Bureau of Employment Security
Maryland	Dept. of Employment & Training
Massachusetts	Division of Employment Security
Michigan	Employment Security Commission
Minnesota	Dept. of Economic Security
Mississippi	Employment Security Commission
Missouri	Employment Security Div.
Montana	Dept. of Labor & Industry
Nebraska	Dept. of Labor
Nevada	Employment Security Dept.
New Hampshire	Dept. of Employment Security
New Jersey	Dept. of Labor, Div. of Employment Services
New Mexico	Employment Security Dept.
New York	Dept. of Labor
North Carolina	Employment Security Commission
North Dakota	Job Service North Dakota
Ohio	Bureau of Employment Services
Oklahoma	Employment Security Commission
Oregon	Employment Division
Pennsylvania	Dept. of Labor & Industry
Puerto Rico	Bureau of Employment Security
Rhode Island	Dept. of Employment Security
South Carolina	Employment Security Commission
South Dakota	Dept. of Labor
Tennessee	Dept. of Employment Security
Texas	Texas Employment Commission
Utah	Dept. of Employment Security
Vermont	Dept. of Employment & Training
Virginia	Virginia Employment Commission
Virgin Islands	Employment Security Agency
Washington	Employment Security Dept.
West Virginia	Dept. of Employment Security
Wisconsin	Dept. of Industry, Labor and Human Relations
Wyoming	Employment Security Commission

Work-study

HOW IT WORKS

The Veteran-Student Work Study program provides supplemental funds for veterans enrolled in full-time schooling. At a rate of $3.35 per hour (or an amount equal to the minimum daily hour wage, whichever is higher), veteran-students may work a maximum of 250 hours a semester/quarter.

WHO IS ELIGIBLE

You must be a veteran enrolled full-time under G.I. Bill (Chapter 34) or vocational rehabilitation program (Chapter 31). Preference will be given to those veterans having a 30 percent or more service-connected disability.

HOW TO APPLY

Veterans may apply through the veterans advisor on campus, Department of Veterans Affairs Headquarters or Field Offices, with the Local Veterans Employment Representative (LVER) at any Job Service Center or directly through any Veterans Administration Regional Office.

Federal Contractor Job Listing (FCJL)

Employers having federal contracts of $10,000 or more are required to take affirmative action to employ veterans of the Vietnam era and special disabled veterans. These employers must list, with some exceptions, all job openings with their local Job Service office. Job Service gives preference in referral for veterans for these jobs.

Voc-Rehab

HOW IT WORKS

Vocational rehabilitation is a program designed to assist the service-disabled veteran obtain and maintain suitable employment, or for certain veterans, to achieve maximum independence in daily living. Benefits are available for use in on-the-job or Apprenticeship training, or for full-time schooling. The Veterans Administration pays the trainee a monthly allowance in addition to the wage paid by the employer, and in addition to regular disability compensation.

WHO IS ELIGIBLE

Any veteran who served in the armed forces during World War II or thereafter if: they suffered a service-connected disability in active service which entitles them to compensation; they were discharged under other than dishonorable conditions; the Veterans Administration determines they need vocational rehabilitation to overcome a handicap to employment caused by their disabilities.

HOW TO APPLY

If you are a veteran with a service-connected disability, visit any Department of Veterans Affairs Field or Contract Office, your local service organization or any Veterans Affairs Regional Office.

If you are a hospitalized serviceperson awaiting disability discharge, send your application, VA Form 28-1900 (with copies of available medical records) to any Veterans Affairs Regional Office.

TIME LIMIT

Veterans generally have 12 years from date of discharge to complete a rehabilitation program. Those who have been out of the service for more than 12 years may still be eligible if certain conditions prevented them from pursuing a rehabilitation program.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

MAR 6 1987

Dear Mr. Turnage: (021)

Thank you for your letter of February 2, 1987. After considering the position your letter set forth, Financial Management Service agrees that the funds appropriated under the Veterans' Job Training Act are available until September 30, 1987.

I hope this letter brings the matter to a satisfactory conclusion.

Sincerely,

Gerald Murphy

Gerald Murphy
Fiscal Assistant Secretary

The Honorable Thomas K. Turnage
Administrator of Veterans Affairs
Veterans Administration
Washington, D.C. 20420

Office of the
Administrator
of Veterans Affairs

Washington DC 20420

Veterans
Administration

FEB 2 1987

Honorable James A. Baker III
Secretary of the Treasury
15th & Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. Secretary:

We recently have received several inquiries from veterans' service organizations, as well as the Senate and House Veterans' Affairs Committees, concerning the funding of the Veterans' Job Training Act Account, 36-6/8-0103. The specific concern expressed to the Veterans Administration is the lack of availability of Veterans' Job Training Act (VJTA) funds appropriated by Public Laws 98-151 and 98-181.

Our Agency's Director, Office of Budget and Finance, has pointed out that, in accordance with the authorization of appropriations provision enacted as section 16 of Public Law 98-77 (August 15, 1983), the aforementioned laws appropriated a total of $150 million during FY 1984 to remain available until September 30, 1986. Subsequently, however, section 16 of the VJTA was amended by section 212(b) of Public Law 98-543 (October 24, 1984) to provide that all amounts appropriated pursuant to that section shall remain available until "September 30, 1987."

I understand, nevertheless, that the Treasury Department has determined that the period of availability for use of the $150 million appropriated for the VJTA during FY 1984 lapsed on September 30, 1986. This position apparently is based on the language of the continuing and supplemental appropriations provisions of Public Laws 98-151 and 98-181, respectively, as well as the view that such language was not affected by last year's supplemental appropriations bill (Public Law 99-349, enacted July 3, 1986) which directed that $35 million be transferred from the VA's Minor Construction Program to the VJTA, to remain available until September 30, 1988. It is not clear, however, whether your department considered the amendments made by Public Law 98-543.

Our General Counsel, after having reviewed the legislative history of Public Law 98-543, has advised that the Congress, in enacting section 212(b) of that law, clearly intended that the period of availability of all funds appropriated under the

VJTA be extended for an additional year, until September 30, 1987. The General Counsel points out that this is plainly reflected in the floor statement of Congressman Marvin Leath (D-TX), then Chairman of the Subcommittee on Education, Training and Employment, House Committee on Veterans' Affairs, preceding the House agreement to the Senate amendments to H.R. 5688, which reads in pertinent part as follows: "Additionally, funds appropriated for fiscal year 1984 and 1985 will be available until September 30, 1987, rather than September 30, 1986. These changes will greatly enhance the effectiveness of the EVJTA." 130 Cong. Rec. H11275 (daily ed. October 5, 1984). Please see, also, 130 Cong. Rec. S13879 (daily ed. October 9, 1984) (expression of the same intent in the explanatory statement of compromise agreement on H.R. 5688, the Veterans' Benefits Improvement Act of 1984).

In view of the above, we request that the Treasury Department reconsider its position in this matter and advise us accordingly. To facilitate your review, we are enclosing copies of the pertinent statutory provisions and legislative history referenced above.

Your prompt consideration of this request will be most appreciated.

Sincerely,

THOMAS K. TURNAGE
Administrator

Enclosures

(B) to inform private industry and business concerns (including small business concerns), public agencies and organizations, educational institutions, trade associations, and labor unions about the job training opportunities available under, and the advantages of participating in, the program established by this Act.

(2) The Secretary, in consultation with the Administrator, shall promote the development of employment and job training opportunities for veterans by encouraging potential employers to make programs of job training under this Act available for eligible veterans, by advising other appropriate Federal departments and agencies of the program established by this Act, and by advising employers of applicable responsibilities under chapters 41 and 42 of title 38, United States Code, with respect to veterans.

38 USC 2001 et seq., 2011 et seq.

(b) The Administrator and the Secretary shall coordinate the outreach and public information program under subsection (a)(1), and job development activities under subsection (a)(2), with job counseling, placement, job development, and other services provided for under chapters 41 and 42 of title 38, United States Code, and with other similar services offered by other public agencies and organizations.

(c)(1) The Administrator and the Secretary shall make available in regional and local offices of the Veterans' Administration and the Department of Labor such personnel as are necessary to facilitate the effective implementation of this Act.

(2) In carrying out the responsibilities of the Secretary under this Act, the Secretary shall make maximum use of the services of State and Assistant State Directors for Veterans' Employment, disabled veterans' outreach program specialists, and employees of local offices appointed pursuant to sections 2003, 2003A, and 2004 of title 38, United States Code. The Secretary shall also use such resources as are available under part C of title IV of the Job Training Partnership Act (29 U.S.C. 1501 et seq.). To the extent that the Administrator withholds approval of veterans' applications under this Act pursuant to section 5(b)(2)(B), the Secretary shall take steps to assist such veterans in taking advantage of opportunities that may be available to them under title III of that Act or under any other program carried out with funds provided by the Secretary.

96 Stat. 1437.

96 Stat. 1380.
29 USC 1721.

96 Stat. 1364.
29 USC 1651.

Small business opportunities.

(d) The Secretary shall request and obtain from the Administrator of the Small Business Administration a list of small business concerns and shall, on a regular basis, update such list. Such list shall be used to identify and promote possible training and employment opportunities for veterans.

Application and certification assistance.

(e) The Administrator and the Secretary shall assist veterans and employers desiring to participate under this Act in making application and completing necessary certifications.

AUTHORIZATION OF APPROPRIATIONS

and $65,000,000 for fiscal year 1986

29 USC 1721 note.

SEC. 16. There is authorized to be appropriated to the Veterans' Administration $150,000,000 for each of fiscal years 1984 and 1985 for the purpose of making payments to employers under this Act and for the purpose of section 18 of this Act. Amounts appropriated pursuant to this section shall remain available until September 30, 1986.

7

8.

(ii) The chapter analysis at the beginning of chapter 57 of title 5, United States Code, is amended by inserting after the item relating to section 5724a the following new items:

"5724b. Taxes on reimbursements for travel, transportation, and relocation expenses of employees transferred.
"5724c. Relocation services.".

(B) Section 5724(i) of title 5, United States Code, is amended by striking out "5724a" and inserting in lieu thereof "5724a, 5724b,".

(b) The amendments made by subsection (a) shall be carried out by agencies by the use of funds appropriated or otherwise available for the administrative expenses of each of such respective agencies. The amendments made by such subsection do not authorize the appropriation of funds in amounts exceeding the sums already authorized to be appropriated for such agencies.

5 USC 5724 note.

(c)(1) The amendments made by subsection (a) shall take effect on the date of the enactment of this joint resolution.

Effective date.
5 USC 5724 note.

(2) Not later than thirty days after the date of the enactment of this joint resolution, the President shall prescribe the regulations required under the amendments made by subsection (a). Such regulations shall take effect as of such date of enactment.

Regulations.
Effective date.

SEC. 119. (a) Notwithstanding any other provision of this joint resolution, the project for navigation at Eastport Harbor, Maine, authorized by section 101 of the River and Harbor Act of 1960 (74 Stat. 480), is not authorized after the date of enactment of this joint resolution.

East Harbor, Maine; navigation project.

(b) The Secretary of the Army shall transfer without consideration to the city of Eastport, Maine, title to any facilities and improvements constructed by the United States as part of the project described in subsection (a) of this section. Such transfer shall be made as soon as practicable after the date of enactment of this joint resolution. Nothing in this section shall require the conveyance of any interest in land underlying such project title to which is held by the State of Maine.

Land conveyance.

SEC. 121. Funds appropriated or otherwise made available for fiscal year 1984 pursuant to section 101(e) of this joint resolution or the enactment into law of H.R. 3222 shall be available notwithstanding section 15(a) of the State Department Basic Authorities Act of 1956 and section 701 of the United States Information and Exchange Act of 1948, as amended, until November 18, 1983.

Post, p. 1071.
22 USC 2680.
22 USC 1476.

SEC. 123. Section 5132(a)(1) of title 31, United States Code, is amended by inserting after the second sentence thereof the following: "The Secretary shall annually sell to the public, directly and by mail, sets of uncirculated and proof coins, and shall solicit such sales through the use of the customer list of the Bureau of the Mint.".

96 Stat. 988.

SEC. 125. Notwithstanding any other provision of this joint resolution, there are hereby appropriated $165,000 for the Joint Study Panel on the Social Security Administration for purposes of carrying out the study required by section 338 of the Social Security Amendments of 1983, to remain available until September 30, 1984.

Ante, p. 132.

SEC. 126. For payments to defray the costs of training and provision of incentives to employers to hire and train certain wartime veterans who have been unemployed for long periods of time as authorized by law (the Emergency Veterans' Job Training Act of 1983, Public Law 98-77), $75,000,000, to remain available until September 30, 1986: *Provided*, That not more than $25,000,000 of the amount appropriated shall be available for transfer to the "Readjustment benefits" appropriation for educational assistance payments under the provisions of section 18 of Public Law 98-77. Any unused portion of the amount so transferred may be returned to this appropriation at any time, but not later than December 31, 1984.

Ante, p. 443.
29 USC 1721 note.

Ante, p. 452.
29 USC 1721 note.

plus food owned or to be purchased by the Corporation under the food distribution and emergency shelter program in cooperation with the Federal Emergency Management Agency.

National Aeronautics and Space Administration

CONSTRUCTION OF FACILITIES

For an additional amount for "Construction of facilities", $20,000,000, to remain available until September 30, 1986, for partial funding of the construction of facilities at the John F. Kennedy Space Center for the Solid Rocket Booster assembly and refurbishment contractor and for warehousing to be used by the Shuttle processing contractor: *Provided*, That with the funds appropriated under the "Space flight, control and data communications" account in the 1984 Housing and Urban Development-Independent Agencies Appropriation Act (Public Law 98–45), NASA may enter into a contract with Morton Thiokol, Inc., to amortize the Thiokol Casting Pit Covers over a twelve-year period for a total cost of not to exceed $23,000,000 under the authority granted under Public Law 98–45.

Ante, p. 219.

Veterans Administration

MEDICAL AND PROSTHETIC RESEARCH

For an additional amount for "Medical and prosthetic research", $53,974,000, to remain available until September 30, 1985.

VETERANS JOB TRAINING

For an additional amount for payment of expenses as authorized by the Emergency Veterans' Job Training Act of 1983 (Public Law 98–77), $75,000,000, to remain available until September 30, 1986.

Ante, p. 443.

SHORT TITLE AND TABLE OF CONTENTS

Section 1. (a) Titles I through XI of this Act may be cited as the "Domestic Housing and International Recovery and Financial Stability Act".

(b) Titles I through V of this Act may be cited as the "Housing and Urban-Rural Recovery Act of 1983".

Domestic Housing and International Recovery and Financial Stability Act.
12 USC 1701 note.
Housing and Urban-Rural Recovery Act of 1983.
12 USC 1701 note.

TABLE OF CONTENTS

Sec. 1. Short title and table of contents.

TITLE I—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT AND CONSERVATION

Part A—Community Development Block Grant Program

Sec. 101. Low and moderate income benefit objective.
Sec. 102. Definitions.
Sec. 103. Authorization of appropriations.
Sec. 104. Statement of activities and review.
Sec. 105. Eligible activities.
Sec. 106. Allocation and distribution of funds.
Sec. 107. Discretionary fund.
Sec. 108. Guarantee of loans.
Sec. 109. Use of grants to settle outstanding urban renewal loans.
Sec. 110. Transition provisions.

"(B) The number of individuals receiving appointments under such subsection whose appointments were converted to career or career-conditional appointments, or whose employment under such an appointment has terminated, since the last such report, together with a complete listing of categories of causes of appointment terminations and the number of such individuals whose employment has terminated falling into each such category.

"(C) The number of such terminations since the last such report that were initiated by the agency involved and the number of such terminations since the last such report that were initiated by the individual involved.

"(D) A description of the education and training programs in which individuals appointed under such subsection are participating at the time of such report.

"(2) Information shown for an agency under clauses (A) through (D) of paragraph (1) of this subsection—

"(A) shall be shown for all veterans; and

"(B) shall be shown separately (i) for veterans of the Vietnam era who are entitled to disability compensation under the laws administered by the Veterans' Administration or whose discharge or release from active duty was for a disability incurred or aggravated in line of duty, and (ii) for other veterans.".

EXTENSION OF EMERGENCY VETERANS' JOB TRAINING ACT PROGRAM

29 USC 1721 note. Sec. 212. (a) Section 5(b)(3)(A) of the Emergency Veterans' Job Training Act of 1983 (Public Law 98-77; 97 Stat. 445) is amended by striking out "60 days" and inserting in lieu thereof "90 days".

29 USC 1721 note. (b) Section 16 of such Act is amended by striking out "September 30, 1986" and inserting in lieu thereof "September 30, 1987".

29 USC 1721 note. (c) The text of section 17 of such Act is amended to read as follows:

"Sec. 17. Assistance may not be paid to an employer under this Act—

"(1) on behalf of a veteran who initially applies for a program of job training under this Act after February 28, 1985; or

"(2) for any such program which begins after September 1, 1985.".

TITLE III—OTHER BENEFIT RATE INCREASES AND PROGRAM IMPROVEMENTS

VOCATIONAL TRAINING AND HEALTH-CARE ELIGIBILITY PROTECTION FOR PENSION RECIPIENTS

Sec. 301. (a)(1) Subchapter II of chapter 15 is amended by adding at the end the following new sections:

38 USC 524. **"§ 524. Temporary program of vocational training for certain new pension recipients**

"(a)(1) Subject to paragraph (3) of this subsection, in the case of a veteran under the age of 50 who is awarded pension during the program period, the Administrator shall determine whether the achievement of a vocational goal by the veteran is reasonably feasible. Any such determination shall be made only after evaluation of the veteran's potential for rehabilitation, and any such evaluation shall include a personal interview of the veteran by a ties that may be encountered by veterans during their training under this Act and shall advise all veterans and employers participating under this Act of the availability of such services and other related counseling services and assistance and encourage them to request such services and assistance whenever appropriate.".

98 Stat. 2744. 29 USC 1721 note.

(d) AUTHORIZATION OF APPROPRIATIONS.—Section 16 of such Act is amended—

(1) by inserting "and $65,000,000 for fiscal year 1986" after "1985"; and

(2) by striking out "1987" and inserting in lieu thereof "1988".

98 Stat. 2744. 29 USC 1721 note.

(e) TOLLING OF CERTAIN PERIOD.—Section 17 of such Act is amended—

(1) by striking out "Assistance" and inserting in lieu thereof "(a) Except as provided in subsection (b), assistance";

(2) in clause (1), by striking out "February 28, 1985" and inserting in lieu thereof ~~"January 31, 1987"~~;

Ante, p. 481.

~~(3) in~~ clause (2), by striking out "July 1, 1986" and inserting in lieu thereof ~~"July 31, 1987"~~; and

(4) by adding at the end the following new subsection:

"(b) If funds for fiscal year 1986 are appropriated for the purpose of making payments to employers under this Act but are not both so appropriated and made available by the Director of the Office of Management and Budget to the Veterans' Administration on or before February 1, 1986, for such purpose, assistance may be paid to an employer under this Act on behalf of a veteran if the veteran—

"(1) applies for a program of job training under this Act within 1 year after the date on which funds so appropriated are made available to the Veterans' Administration by the Director; and

"(2) begins participation in such program within 18 months after such date.".

29 USC 1721 note.

(f) EFFECTIVE DATE.—(1) Except as provided in paragraph (2), the amendments made by this section shall take effect on the date of the enactment of this Act.

(2) The amendment made by subsection (e)(2) shall take effect on February 1, 1986.

38 USC 1516 note.

SEC. 202. COORDINATION.

(a) IN GENERAL.—In carrying out section 1516(b) of title 38, United States Code, the Administrator of Veterans' Affairs shall take all feasible steps to establish and encourage, for veterans who are eligible to have payments made on their behalf under such section, the development of training opportunities through programs of job training consistent with the provisions of the Veterans' Job Training Act (as redesignated by section 201(a)(1) of this Act) so as to utilize programs of job training established by employers pursuant to such Act.

READJUSTMENT BENEFITS

For an additional amount for "Readjustment benefits", $91,000,000, to remain available until expended.

MEDICAL CARE

(TRANSFER OF FUNDS)

For an additional amount for "Medical care", not less than $25,000,000 nor more than $30,000,000, to be derived by transfer from "Construction, major projects".

GENERAL OPERATING EXPENSES

(TRANSFER OF FUNDS)

For an additional amount for "General operating expenses", up to $6,000,000, to be derived by transfer from "Construction, minor projects".

VETERANS JOB TRAINING

(TRANSFER OF FUNDS)

For payments to defray the costs of training and provision of incentives to employers to hire and train certain veterans as authorized by the Veterans' Job Training Act, as amended (29 U.S.C. 1721), $35,000,000, to remain available until September 30, 1988, and to be derived by transfer from "Construction, minor projects".

Administrative Provisions

Housing.
Loans.

Retroactive to October 1, 1985, all payments for appraisals performed on a contractual basis in connection with the liquidation of housing loans guaranteed, insured, or made in conjunction with loan guarantee operations shall be charged to the VA loan guaranty revolving fund.

99 Stat. 931.

Notwithstanding section 409 of Public Law 99-160, of the funds provided by that Act for the Neighborhood Reinvestment Corporation, an additional $250,000 may be used for object classification expenses other than personnel compensation and benefits.

Federal Home Loan Bank Board

LIMITATION ON ADMINISTRATIVE EXPENSES, FEDERAL HOME LOAN BANK BOARD

The limitation on administrative expenses for fiscal year 1986 is increased by $3,429,000.

and 36 of title 38, United States Code, relating to certain rehabilitation and education programs, to increase rates of all VA education programs, including rehabilitation subsistence allowances for veterans with service-connected disabilities; educational assistance allowances and special supplementary (tutorial) assistance for eligible veterans; training assistance allowances for apprenticeship and other on-job training; and educational assistance and special training allowances for eligible survivors and dependents. The House bill would increase such rates and allowances by 15 percent, effective January 1, 1985, and the Senate amendment by 10 percent, effective October 1, 1984.

The compromise agreement contains the Senate provision.

The Senate amendment, but not the House bill nor H.R. 5398, would amend section 1784(c) of title 38, relating to reporting fees paid to educational institutions to defray the costs to them of reports and certifications required by the VA, to increase the amounts of such fees from $7 to $8 annually for each eligible veteran or eligible person enrolled at an educational institution under chapter 34 or 35 or from $11 to $12 annually for each enrollee receiving advance payment of educational assistance allowances.

The compromise agreement does not contain this provision.

H.R. 5398 (section 101(c)(1)), but not the Senate amendment, would amend section 1774(b) of title 38, relating to reimbursement of expenses to State approving agencies, to increase the allowance for administrative expenses by 15 percent, effective January 1, 1985.

The compromise agreement does not contain this provision.

PART B—VETERANS' EMPLOYMENT PROGRAMS

EXTENSION AND REVISION OF VETERANS' READJUSTMENT APPOINTMENTS

Both the Senate amendment (section 301) and H.R. 5398 (section 201) would amend section 2014(b) of title 38, relating to the authority for veterans readjustment appointments, to extend the authority. H.R. 5398 would extend the authority for three years, until September 30, 1987, and the Senate amendment for one year, until September 30, 1985. Further, H.R. 5398, but not the Senate amendment, would raise the maximum grade level at which appointments may be made from GS-7 to GS-11 and remove the requirement that non-service-connected disabled Vietnam-era veterans be educationally disadvantaged in order to be eligible for a veterans readjustment appointment. Finally, both the Senate amendment and H.R. 5398 would provide limited appeal rights during the first year of an appointment and provide for annual, instead of semi-annual, reports on the program. H.R. 5398 would, in addition, make technical changes in the reporting requirement in order to reflect more accurately how the system of obtaining the information for the report operates in practice.

The compromise agreement (section 211) would extend the veterans readjustment appointment authority for two years, until September 30, 1986; raise to GS-9 the maximum grade level at which appointments may be made; provide limited appeal rights; and require an annual, rather than semi-annual, report (incorporating the technical changes proposed in H.R. 5398).

EXTENSION OF EMERGENCY VETERANS' JOB TRAINING ACT

Both the Senate amendment (section 302) and H.R. 5398 (section 301) would amend the Emergency Veterans' Job Training Act of 1983, Public Law 98-77, to extend by 6 months, until September 1, 1985, the date by which veterans previously certified must commence a training program under that Act and to extend to 90 days the lifetime of certifications of eligibility furnished to veterans under the Act. In addition, H.R. 5398, but not the Senate amendment, would extend by 8 months, until May 30, 1985, the date by which veterans may apply to participate in the program. Finally, the Senate amendment, but not H.R. 5398, would extend the availability of appropriated funds under the program for one year.

The compromise agreement (section 212) incorporates both the House and Senate provisions except that the application date deadline is extended for three months, through February 28, 1985.

OTHER EDUCATION PROVISIONS

The Senate amendment (section 210), but neither the House bill nor H.R. 5398, would amend certain provisions of chapters 31, 34, and 35 of title 38, relating to time limits for completion of programs of education or training, to toll the eligibility period for GI Bill and certain other educational benefits and vocational rehabilitation programs for certain veterans and eligible persons who have been prevented from participating in such programs because of alcohol or drug dependence or abuse. In the case of a veteran with a general discharge, an individual determination that the discharge was under conditions other than dishonorable would be required.

The compromise agreement does not contain this provision.

The Senate amendment (section 211), but neither the House bill nor H.R. 5398, would amend section 1796 of title 38, relating to limitations on certain advertising, sales, and enrollment practices, to repeal a Veterans' Administration reporting requirement pertaining to deceptive advertising practices by educational institutions.

The compromise agreement (section 401) contains this provision.

The Committees expect the Administrator to continue to monitor closely advertisement practices by educational institutions enrolling GI Bill trainees and to keep the Committees fully informed about any significant developments relating to deceptive advertising practices by such institutions.

The Senate amendment (section 212), but neither the House bill nor H.R. 5398, would require the Administrator to consult with the VA's educational advisory committee (established pursuant to section 1792 of title 38) prior to changing any requirements for educational institutions to report enrollments of GI Bill trainees.

The compromise agreement does not contain this provision.

The Committees note that they do not believe that a statutory requirement is needed to bring about the consultation sought by the Senate amendment, since this is the purpose for which Congress established the advisory committee.

TITLE III—OTHER BENEFIT RATE INCREASES AND PROGRAM IMPROVEMENTS

VOCATIONAL TRAINING AND HEALTH-CARE-ELIGIBILITY PROTECTION FOR PENSION RECIPIENTS

Both the House bill (section 302) and the Senate amendment (section 401) contain provisions that would amend chapter 15 of title 38, relating to VA need-based pension programs for permanently and totally disabled elderly wartime veterans and for survivors of wartime veterans, to establish temporary programs designed to help enable certain disabled veteran-pensioners to return to work.

The House bill would establish a 5-year program of vocational training for disabled veterans under age 50 who are newly found to be entitled to pension. Under the House bill, the Administrator would be required to determine, after a personal interview of the veteran by a VA employee trained in vocational counseling, whether the achievement of a vocational goal by the veteran is reasonably feasible. Failure of the veteran to participate as required by the Administrator in order to make the determination would result in suspension of the veteran's pension until the required participation was completed. If achievement of a vocational goal were determined to be reasonably feasible, the veteran could elect to undertake a program of vocational training that would be carried out as a vocational rehabilitation program under chapter 31 of title 38 but would not include any chapter 31 loans or subsistence allowances. Such a program would not exceed 48 months, and following completion of the program the veteran would be eligible for certain chapter 31 counseling, placement, and post-placement services for up to 18 months. Also, in the case of a veteran who is permanently housebound or in need of regular aid and attendance, who has completed a vocational training program under these provisions, and whose pension was thereafter terminated solely because the veteran's annual income exceeded the applicable maximum limitation, the veteran's eligibility for drugs and medicine under section 612(h) of title 38 would be continued for one year after pension termination.

The Senate amendment would establish a 3-year pilot program (which the Administrator could extend to 4 years) to allow any permanently and totally disabled veteran pension recipient to participate in a 36-month period of trial work. Any work performed by the veteran during that period would not be taken into account in any review of the veteran's ability to secure and follow a substantially gainful occupation. Veterans participating in the program would retain their pension-based VA health-care eligibility during their trial work periods even if their pensions were terminated as a result of their work income. Also, a veteran whose pension was terminated due to income derived from participation in a VA or State vocational rehabilitation program would have an additional 12-month eligibility period for VA health-care services. All income received from employment during the trial work period, with the exception of certain subsistence allowances associated with vocational rehabilitation programs, would be counted in determining the veteran's income for pension purposes. The Administrator would be required to report on the results of the pilot program's first-2 years of implementation not later than 30 months after its effective date.

The compromise agreement (section 301) contains provisions derived from those provisions to add new sections 524, "Temporary program of vocational training for certain new pension recipients", and 525, "Temporary protection of certain health-care eligibility", establishing a 4-year—February 1, 1985, through January 31, 1989—program providing for vocational training and VA health-care eligibility protection for permanently and totally disabled veterans receiving awards of VA pension during that period. Under the compromise agreement, a veteran under age 50 who is found to be entitled to pension would be required to undergo evaluation, as under the House bill, to determine whether a vocational goal is reasonably feasible. Failure to participate in the evaluation as required would result in suspension of the veterans' pension if the failure were for reasons other than those more years the authority for Vietnam veterans to be directly appointed to certain positions in the Federal work force.

The other body has chosen to incorporate all of this subject matter into the omnibus bill which is now before us. It contains a number of compromises which I believe to be very reasonable and necessary if we are to have a final bill before adjournment.

H.R. 5617 provided for increasing loan guaranty maximums under the GI Home Loan Program from $27,500 to $30,000; increasing maximum guarantees for mobile home purchases from $20,000 to $22,000; increasing from $32,500 to $35,000 grants for specially adapted housing for seriously disabled veterans, and increasing from $5,000 to $6,000 housing allowances for certain blind and other seriously disabled service-connected veterans.

In this same bill, we also provided for upright grave markers in national cemeteries in certain instances.

The provisions for increases in GI home loan guarantees and the use of upright gravemarkers and National Cemeteries are not in the bill before us but the other provisions are, but with effective dates somewhat changed.

The principal provision of H.R. 5398 provided a 15-percent increase, effective January 1, 1985, for those veterans and dependents in training under the GI bill or in rehabilitation training. The compromise bill before us calls for a 10-percent increase effective October 1, 1984.

The principal provision of H.R. 5688 provided for a 4.3-percent increase in compensation for service-connected disabled veterans, their dependents and survivors. The compromise provides for a 3.2-percent increase and is in accord with the latest projected Consumer Price Index which was the base originally used by the House.

Mr. Speaker, other provisions in this proposal provide:

First, an increase in automobile grants for amputees and certain other disabled veterans.

Second, possible rehabilitation programs for a limited number of pensioners and for some veterans rated totally disabled as a result of VA findings of unemployability.

Third, approval of an extension of the authority to appoint Vietnam veterans to Federal positions for 2, instead of 3, years and without one liberalizing provision previously contained in the House version.

Mr. Speaker, reasonable people have come to a reasonable agreement on this compromise. In my view, it is a good proposal. I therefore join my distinguished chairman in urging its passage.

Mr. Speaker, our chairman, the gentleman from Mississippi, SONNY MONTGOMERY, has worked tirelessly on this bill as have all members of the House Veterans' Affairs Committee. I would commend especially Mr. APPLEGATE of Ohio, Mr. MCEWEN of Ohio, Mr. LEATH of Texas, Mr. SOLOMON of New York, Mr. SHELBY of Alabama, and Mr. SMITH of New Jersey. They are the chairmen and ranking members of the involved House subcommittees. I also commend the chairman of the Senate Veterans' Affairs Committee, Senator SIMPSON of Wyoming, and his counterpart, Senator CRANSTON of California.

Mr. Speaker, any compromise involves give and take. This bill before us has had much study, and much such give and take. I urge agreement with the chairman's request for its approval.

● Mr. LEATH of Texas. Mr. Speaker, I rise in support of the amended legislation which we are now considering.

Title II of H.R. 5688, amended, contains provisions of H.R. 5398, the Veterans' Education and Employment Amendments of 1984, which passed the House on August 6, 1984. I introduced H.R. 5398 following hearings held by the Subcommittee on Education, Training, and Employment, which I have the honor to chair. The compromise reached with the Senate on these provisions is not all that we had wanted, but agreement is a reasonable one which will serve well our Nation's veterans.

First, we agreed to a 10-percent increase in GI bill benefits and vocational rehabilitation rates effective October 1, 1984. The House-passed bill would have provided a 15-percent increase effective January 1, 1985. The compromise position is a smaller increase but it has the advantage of being available to veteran students sooner and has considerable savings in the outyears. These education benefits were last increased in 1981 by Public Law 96-466. Considering the increase in the cost of living and education since that time, this rate increase is necessary and appropriate.

Next, the compromise agreement provides that the Veterans Readjustment Appointment [VRA] Program, which allows certain eligible Vietnam-era veterans to be given excepted appointments in the Federal civil service, will be extended 2 years beyond its current expiration date of September 30, 1984, to September 30, 1986. Extension of this highly successful program has been supported by all of the veterans organizations and the Office of Personnel Management. The maximum grade level for VRA appointments will be increased from the current GS-7 level to GS-9 or its equivalent under the compromise, thus broadening opportunities for veterans of the Vietnam era. The bill will also provide the same limited appeal protection to VRA appointees as is now given career or career-conditional employees during the first year of employment and require the OPM to report annually, rather than semiannually as at present, on agency use of the VRA-appointment program.

Since its inception, the VRA program has been a good example of our Government doing what it can as an employer to help Vietnam and disabled veterans. When we stop to realize that over 200,000 Vietnam veterans are Federal employees today, who otherwise might not have been, without the VRA authority, we understand what is meant when the VRA program is called one of the most successful programs Congress has enacted to help Vietnam veterans. In addition, the VRA program has not cost the Government one penny. No new or additional employees are authorized or needed by extending the VRA program. All the VRA authority does is provide another way for a Federal agency to hire a Vietnam veteran without going through the competitive process. No agency is obligated to use the VRA authority. It is a voluntary program. While the hiring results under this program have been impressive, we should also emphasize that this program is a good one for minorities and women. For example, the OPM's most recent data for the first half of fiscal year 1983 show that, of a total of 7,200 appointments, approximately 35 percent were minorities and 8 percent were women. The Department of Labor reports that 417,000 Vietnam veterans were unemployed as of August 1984, and that of this total, 9.7 percent of the younger Vietnam veterans—age 25-29—were unemployed. This is not good, and at least by extending the VRA program we will be helping a lot of these veterans become employed.

Finally, the bill will make improvements in the Emergency Veterans Job Training Act of 1983, Public Law 98-77. First, this legislation will extend from 60 to 90 days the period that the certificate of eligibility furnished to a veteran under this program will be valid. It will also extend from November 29, 1984, through February 28, 1985, the date by which an eligible veteran may apply for assistance under this program and from March 1 to September 1, 1985, the cutoff date for commencing training. Additionally, funds appropriated for fiscal years 1984 and 1985 will be available until September 30, 1987, rather than September 30, 1986. These changes will greatly enhance the effectiveness of EVJTA.

I want to take this opportunity to commend all the members of the Subcommittee on Education, Training, and Employment who worked so diligently to develop this legislation. Most particularly I want to thank the ranking minority member of our Subcommittee on Education, Training, and Employment [JERRY SOLOMON] for all his usual hard work and dedication to achieve the compromise on title II of this bill, and his cooperation and support on H.R. 5398 throughout this 98th Congress. I also want to thank Mr. MONTGOMERY, the chairman of our committee, and Mr. HAMMERSCHMIDT, the ranking minority member of our

JOBS FOR HOMELESS VETERANS
IN TEN U.S. CITIES -- PROGRESS TO DATE

Grants for JHV. A $25,000.00 grant is made available for a governmental unit in each of ten cities to hire, train and supervise small cadres of veterans--themselves rehabilitated from a homeless environment--to reach out to homeless veterans on the streets and in the shelters. The purpose is to induce homeless veterans to take advantage of federal and state entitlements, rehabilitation programs, and job training and placement services leading to employment and a way out of homelessness.

Grantees agree to network with other government and private sector services for the homeless in their cities. They conduct workshops to familiarize shelter and soup kitchen operators with available federal and state services and, conversely, workshops to provide government agencies with a better working perspective on the special needs of homeless veterans.

The grantees agree to provide a minimum of 1.5 Full Time Equivalent (FTE) of part- or full-time position (cadre) to work the shelters and streets. Grantees also generate matching resources to enhance the support services and networking linkages.

Progress. JHV grants have been made in three cities to date.

1. In Boston a grant was formalized on November 24, 1986 with the office of the Commissioner of Veterans' Affairs of the Commonwealth of Massachusetts. The Commonwealth agreed to supplement the grant so that three Full Time FTEs would be hired for the Boston cadre. It further agreed to improve effective access for homeless veterans to all state services currently provided to veterans to make them job ready and place them in jobs. In the first month of operation, ten (10) homeless veterans were placed in treatment and counseling programs, 24 were enlisted in job training activities and five (5) were placed in jobs.

2. The Denver grant was made on December 22, 1986 to the Denver Employment and Training Administration (DETA). DETA manages the grant through the American G.I. Forum, which operates the Colorado Veterans Partnership Program--already successful as a network to place veterans in jobs. The Forum network involves state veterans' organizations

and state services. In the first active month the JHV Denver grantee placed 23 homeless veterans in treatment or counseling programs; 23 others have been enlisted in job training programs and four have been placed in unsubsidized jobs.

3. In New Orleans the cadre grant was approved in January 1987 for the Office of Veterans Resources under supervision of the mayor. Especially strong support linkages are being forged with the New Orleans Office of Employment Development and Training and with community housing programs.

Proposals Being Processed. Three cities have made formal grant requests which are currently being processed by the Department of Labor for implementation in March.

1. In Fort Lauderdale, the Broward County Public Services Department, under the Board of County Commissioners, proposes to integrate JHV with the full support of its three Veterans' Services Offices throughout the county, establishing linkages with other county-based employment and rehabilitation services and with local veterans' organizations.

2. The city of Seattle proposes to administer the program through the Seattle Veterans Action Center (SEA-VAC) which will provide assistance in job development, job search, job placement and referral and counseling services, in addition to the networking and cadre supervision activities mandated by the JHV grant. SEA-VAC also proposes to involve VISTA volunteers in its efforts, and to work toward the establishment of a downtown outreach center in Seattle.

3. The city of San Antonio and the Texas Employment Commission (TEC) will enter into a unique partnership to manage the San Antonio JHV program grant submitted by the TEC. The TEC will enrich services to homeless veterans to ready them for employment by redirecting some of its employment and counseling services to this end. The city of San Antonio will provide temporary shelter space, medical service, psychological counseling, dental care and other services to the homeless veteran.

Negotiations Near Completion. Negotiations are nearly complete in three other cities leading to submission of JHV grant proposals: Los Angeles, Detroit and Atlanta. Interested grantees and subgrantees range from city governments and Private Industry Councils (PICs) to church sponsored nonprofit corporations, homeless housing renovation corporations and union-management nonprofit enterprises. It is expected that formal proposals will be submitted before the end of March 1987.

Negotiations are continuing with Baltimore groups to operate a JHV program, but no proposals have been received as yet.

Additional Grants. Other JTPA IV-C grants are being made in San Diego and Tallahassee for protective housing arrangements for homeless veterans at the job-preparation and placement stages. The cost of the homeless veterans components of these grants will be slightly more than $100,000

Conclusion. The JHV pilot program has been very effective as a catalyst to bring together state and local government agencies and private sector services into an effective working group to assist homeless veterans to find jobs. It has also provided a focus around which local representatives of the Veterans Administration, the Department of Labor and the Social Security Administration and can increase the effectiveness of their services for homeless veterans. The preliminary results indicate that our modest JHV goal of bringing 250 homeless veterans into lasting employment will be vastly exceeded and we now estimate that about 1000 homeless veterans will be gainfully employed as a result of the JHV program by the end of the Program Year.

STATEMENT OF
THOMAS K. TURNAGE
ADMINISTRATOR OF VETERANS AFFAIRS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
U.S. SENATE
FEBRUARY 18, 1987

Mr. Chairman, you have requested us to present the views of the VA on legislation -- bills to modify the time period by which the VA's Readjustment Counseling Program would be phased into a program carried out primarily in VA medical centers rather than in Vet Centers, and a multi-faceted proposal intended to assist homeless veterans. Specifically, I will address the provisions of section 4(b) of S. 6 and S. 477, which you introduced, and S. 279, introduced by Senator DeConcini.

S. 279 would amend section 612A(g) of title 38, United States Code, to postpone for one year the date by which the VA's Readjustment Counseling Program would have to be changed from a program taking place primarily in Vet Centers, to a program taking place primarily in VA medical centers. It would also amend that section to postpone for one year the dates by which the Administrator must submit various reports to the Veterans' Affairs committees of Congress regarding that change. Specifically, the bill would postpone the due date of a report presently due April 1, 1987, in which the Administrator must evaluate and report on the effectiveness of the Readjustment Counseling Program in meeting the readjustment needs of Vietnam veterans, the extent to which readjustment needs of such veterans remain unmet, and the extent to which Vet Centers are required to meet this unmet need. The bill would also postpone the due dates of a report presently due July 1, 1987, describing VA's plan for the transition of the Readjustment Counseling Program to one providing services primarily through VA medical centers, and a report presently due February 1, 1989, on VA's experience during the first year of the transition. Finally the bill would amend section 102(b) of Public Law 98-160 to postpone for one year the date by which VA must report on a study, mandated by that law, of the prevalence and incidence among Vietnam veterans of post-traumatic stress disorder and other postwar psychological problems in readjusting from service.

Section 4(b) of S. 6 has virtually the same purpose as S. 279. However, it anticipates a delay in completion of the study of post-traumatic stress disorder mandated by Public Law 98-160.

It would postpone the statutory date by which the Readjustment Counseling Program would have to undergo transition only if the findings from the PTSD study are not available in a timely fashion. Thus, section 4(b) provides that the one-year delay in the transition, and the one-year postponement of the various report due dates, would be effective only if a report on the post-traumatic stress disorder study is not submitted in sufficient time for the Administrator to consider it in responding to the requirements of the report due April 1, 1987. Section 4(b) would also add one additional requirement to the evaluation of the readjustment counseling program which the Administrator is currently required to report on by April 1 of this year. The evaluation would have to include the Administrator's analysis and findings as to whether or not veterans of World War II and the Korean conflict could benefit from readjustment counseling, and how such services could best be provided.

As you know, Mr. Chairman, VA has experienced delays in completing the PTSD study. We regret that those delays took place, but, as you are aware, there were many unforeseen problems in conducting the study. I believe the conduct of that study is now progressing satisfactorily, and I look forward to receiving a report, including some results of the study, toward the end of this fiscal year. Nevertheless, we will not have study data which could be applied to a report due by April 1 of this year.

Since 1980, by agency design, all readjustment counseling service elements have been situated in vet centers, based in communities. Several factors now make it possible to relocate some sites from vet centers to medical facilities. These factors include (1) the maturation and success of the vet center program; (2) the considerable changes which have occurred since 1980 in the relationship between Vietnam Era veterans and the VA system; and (3) the greater understanding on the part of VAMC staff of the needs of many Vietnam Era veterans and of the nature of the vet center program. Therefore, we are planning to relocate a small number of sites during this fiscal year. Although these changes in the Readjustment Counseling Program will take place, we have no objection to enactment of legislation which would postpone the statutory dates which mandate transition of the program to one taking place primarily in VA medical centers. Similarly, we would not object to the one-year postponment of the PTSD study report due date, and also the date when other reports on the transition would have to be completed.

Mr. Chairman, I now turn to our views on S. 477, which proposes certain VA efforts to assist homeless veterans. The bill contains two distinct proposals for assisting homeless veterans, and it would impose new reporting requirements on the

VA in an effort to gain more information on the extent of the homeless veteran problem. In addition, the bill would direct that VA establish and carry out a program to contract for the care of chronically mentally ill veterans in halfway houses and similar community based facilities, and it would require VA to provide additional information in a report on care of the chronically mentally ill veterans, a report mandated by Public Law 99-576, enacted last October.

First, S. 477 would authorize the Administrator to enter into agreements with various private or governmental entities, including veterans service organization~~s, to assist~~ those entities in providing shelter to homeless individuals, primarily veterans and their families. Under those agreements, the Administrator would be authorized to transfer or lease to those entities, real property (primarily individual homes) which have come into VA possession as a result of defaults of VA guaranteed home loans. It would also authorize leasing of underutilized VA facilities, if those facilities would be suitable for providing emergency shelter. Any exercise of this new authority would be conditioned on its not having an adverse impact on VA's ability to carry out its other missions. In selecting entities with which to enter into agreements, preferences would have to be given to veterans service organizations and to other entities committed to assisting the homeless, and who have a demonstrated ability, as reflected by other criteria specified in the bill, to successfully do the job.

Secondly, the bill would direct that the Administrator conduct a 2-year pilot program in ten geographic locations to evaluate various activities which may be of assistance to homeless veterans. Activities which would have to be undertaken and assessed, other than those otherwise authorized by law, are: designation of individuals at VA facilities to coordinate efforts on behalf of homeless veterans; authorization for VA employees to assist and cooperate with organizations providing counseling, job training, and housing assistance to homeless individuals; and encouragement of VA employees to voluntarily assist homeless veterans and their families and to use otherwise unemployed VA resources and facilities where cost to the government would be minimal.

In addition, the bill would establish new reporting requirements having to do with homeless veterans. It would require VA to describe all efforts the Agency has taken in the past 5 fiscal years to assist homeless veterans under our Outreach Program. The report would be required to include an evaluation of the effectiveness of those efforts, and a description of VA plans to expand such efforts. The measure would require a second report, to be conducted in coordination with the Departments of Labor, Defense, Health and Human Services, and Housing and Urban Development and submitted within 6 months. This provision calls for a comprehensive compilation of statistical data on homeless veterans to include data on the numbers of veterans in the homeless population, the service dates of those individuals, utilization of veterans benefits by homeless veterans, and eligibility for veterans benefits by such persons if they are not receiving benefits. In addition to the provisions directly concerned with homeless veterans, S. 477 would require VA to establish a program to contract for care of chronically mentally ill veterans in halfway houses, therapeutic communities, psychiatric residential treatment centers, and other community based treatment facilities. H.J. Res. 102, enacted two weeks ago, will, if signed by the President, add a new section 620C to title 38 to give VA explicit legal authority to contract for the care of those veterans in such facilities. The provision in S. 477 would apparently require VA to establish a pilot program to use the new authority.

As a final matter, S. 477 would expand the scope of the requirement in Public Law 99-576, enacted last fall, which required VA to report on its use of home health services, halfway houses, therapeutic communities, and other similar facilities, to provide care for chronically mentally ill veterans. This provision would require that VA also include information and an analysis regarding hospital, domiciliary, and nursing home care provided to the chronically mentally ill in VA facilities, for the years 1984, 1985, and 1986, and an estimate of such care for 1987, as well as an analysis of the impact of VA's resource allocation model on the data.

HOMELESS VETERANS

In testifying here today on a proposal calling for various efforts to attempt to help the homeless, I do so as the Administrator of an agency that has long played a major role in assisting veterans to enter the mainstream of American life. VA programs--including educational benefits, vocational rehabilitation and counseling, direct income support to the disabled, health care, and home loan guarantees--have had an enormous positive impact. Few would deny the success of these and other VA programs, and it is probable that without them, more of our population would suffer the indignity of being homeless.

The tragic phenomenon of homelessness is complex. It is not simply a problem of unemployment or lack of housing. It has its roots in changes experienced within our economy; in changing family relationships; and for many in the pervasive effects of mental illness, alcoholism, and drug abuse. The gripping problems which impair the ability of many of the homeless to function effectively in society also complicate efforts to help them or even to obtain reliable new data on their numbers and backgrounds.

Homelessness is a societal problem. No one institution, level of government, or agency of government alone can effectively address it. We at the Veterans Administration know that there are veterans among the homeless. We are substantially involved at many levels in responding to this vexing challenge. In fact, several of the initiatives proposed in S. 477 are already being carried out, or are planned. Since "homelessness" is so often not a single problem, however, but a tragic manifestation of a constellation of problems--economic, social, and behavioral--VA can be most effective, in our view, in working in concert with local communities and other entities. We envision VA's greatest impact on this problem arising from our efforts to work with and cooperate with local communities and community based organizations that are in a position to refer veterans to our facilities.

HOUSING

Mr. Chairman, the Veterans Administration supports the initiative embodied in section 2 of the bill, that carefully selected real property acquired through foreclosures of VA guaranteed loans be put to use in the effort to assist homeless veterans. Three general principles must guide our actions in this area. First, we must respect the concerns and have sensitivity to the former "veteran" owners. Second, any decision to transfer property to assist local housing authorities and nonprofit organizations must take into account that homeless veterans are often multiply disadvantaged individuals, lacking not only shelter but also food, clothing, medical services, and social supports. Consequently, only those properties in more centralized areas with existing community services are likely to be considered by local communities. Third, the VA has the responsibility to ensure that the Loan Guaranty Revolving Fund operates in a responsible and efficient manner. With these principles in mind, a carefully supervised pilot demonstration could be implemented.

Mr. Chairman, let me say at the outset that we do give every reasonable and humane consideration to avoid homelessness for those who have lost their homes through foreclosure of a VA guaranteed mortgage. VA takes into account the physical condition of the veteran and immediate family members who occupy a property, the effects of eviction on the family at an inappropriate time during the school year, the season during which the veteran will be requested to vacate, and the likelihood of a repurchase by the veteran if his/her financial situation has improved since the foreclosure action. Veterans are given very reasonable periods of time to locate alternative housing which is both suitable and affordable. Additionally, if Congress were to enact section 2 of S. 477, it would be imperative to administer such a program with sensitivity to the views of the veteran community at large.

VA has, in the past, offered properties for sale to local housing agencies which were seeking properties for use as low income housing. As part of our operating procedures, when it is determined that local government agencies and nonprofit housing organizations who wish to purchase VA properties are not able to bid in competition with the general public, we permit local entities to purchase properties prior to offering them for sale. In a similar vein, VA currently participates in urban homesteading programs which make certain VA properties obtained through the home loan guaranty program available to local communities for use by lower income individuals. While that program does not directly provide housing for the homeless, it indirectly helps by increasing the stock of lower income housing. The VA has transferred approximately 500 properties to HUD for use in the Urban Homesteading Program. HUD then transfers the properties to Local Urban Homesteading Agencies.

In embarking on an effort along the lines proposed in section 2 of the bill, we must acknowledge that we do not know at this time whether organizations which could obtain the VA properties for the homeless would be interested in single-family dwellings in the places VA homes may be located. There may be a greater preference for multi-family buildings in more centralized locations which have greater capacity for meeting other needs of the homeless such as food, transportation and medical care.

Let me stress, however, that while we have no objection in principle to a carefully structured initiative which would make certain VA properties available to organizations to provide shelter for homeless veterans, it is important that full ownership be transferred to the administering Agency. If a program were begun, caution would have to be exercised, and reasonable criteria would have to be developed to determine what properties could be made available. VA currently owns approximately 21,000 single-family dwellings which were acquired as a result of foreclosures of VA-guaranteed loans. These properties average 9 months from acquisition by VA to sale. The income from the sale of these properties is the main source of funds used to pay expenses of the Loan Guaranty Program. It would not be appropriate for VA to dispose of properties which have potential for sale, as this could result in a need for increased appropriations for the Loan Guaranty Program. However, there are certainly some properties which do have potential for use in a local program to house homeless veterans.

PILOT PROGRAMS

Mr. Chairman, it has been our experience that activities which coordinate the resources of all relevant government agencies, charitable organizations, and community volunteers are most productive and beneficial. In our view, the unifying theme associated with these efforts should be integration with community leaders and resources.

On a national level we are trying to carry out those principles, as well as to foster their application at the facility level. Significantly, VA participates on a Federal Interagency Task Force on the Homeless which is devoted to removing obstacles to, and facilitating, federal responses to the issue of homelessness. For example, along with other task force members, VA has joined with HUD and the Robert Wood Johnson Foundation in a 9-city model project designed to determine appropriate comprehensive care for the chronically mentally ill homeless.

In addition, we are working with the Department of Labor in their 10-city project, Jobs for Homeless Vets. This initiative seeks to locate, rehabilitate, and employ hard-to-reach homeless veterans. VA has named 30 staff to coordinate our Agency's efforts with the local work groups. The program will deal with the comprehensive needs of these veterans, including medical or mental health care and substance abuse. It will focus on outreach, the use of available programs, and better linkages with the private sector.

At the local level, many of our facilities have already taken initiatives on behalf of homeless veterans of the kinds envisioned in section 3 of the bill. Social workers at our medical centers, for example, have played a coordinating role in working with representatives of the homeless. VA staff have visited shelters to offer evaluation and referral services to veterans, often on a voluntary basis. Social workers and counseling specialists have been among VA staff members who have met with community officials and heads of agencies providing services to the homeless.

More specifically, VA regional offices at San Francisco, Atlanta, Boston, and Phoenix are among many of our fine facilities whose veterans service officers are members of local task forces on the homeless. Veterans Benefit Counselors from those facilities have been working with local shelters to explain available VA services and set up referral networks.

We are only just beginning to compile annual reports from our medical centers regarding ongoing efforts to assist the homeless. However, the following examples, I believe, are illustrative of the kind of role VA is playing.

In Albany, through a VA Social Work Service initiative involving the Albany Housing Authority, County Department of Social Welfare and the Travelers Aid Society, they are using five studio apartments as transitional housing for otherwise homeless veterans. A total of 35 veterans have been served by this program to date. In Bay Pines, Florida, the Chief, Social Work Service organized a coalition of social service, civic organizations and religious representatives to coordinate and plan for the provision of housing, counseling and minimal health care for homeless individuals. In Washington, D.C., VA benefits counselors, Vet Center counselors and social workers, are visiting shelters to screen veterans for possible benefits, offer rehabilitation and employment counseling. Veterans found in need of medical assistance are transported to the VAMC. The hospital is currently completing a demographic survey of the veteran homeless to determine the comprehensive needs of this population. In Cleveland, VA's Chief of Social Work Service serves on the governance board of the Health Care for the Homeless Project, a Robert Wood Johnson Foundation Grant administered by the Federation for Community Planning.

Mr. Chairman, I would like to mention and applaud the exemplary efforts of VA officials in San Francisco who, working with city and state officials, representatives of veteran's organizations, representatives of your office, as well as persons representing others in the California delegation, have undertaken a major effort on behalf of homeless veterans in San Francisco. Last summer, all of these representatives, some 16 in total, formed a joint task force on homeless veterans. The task force determined that one of the needs of homeless veterans in San Francisco was for a medium to long-term facility to provide transitional housing in a setting which would provide a number of support services which would allow the homeless veteran to make a transition to a more stable life. As you may be aware, the task force very recently completed a final proposal for establishment for such a project which would serve 50 homeless veterans, and I understand a building to house the program has been located. Although VA will not have a role in directly administering the facility, both the Regional Office and the Medical Center in the city anticipate working very closely with the facility to offer all

VA services either on site, or at VA facilities. This effort is certainly a fine example of VA and community cooperation in assisting the homeless veteran.

OUTREACH

In the area of outreach, the focus of section 4 of S. 477, VA has conducted outreach programs for many years and has made efforts to reach homeless veterans. There are certainly many VA benefits which homeless individuals may avail themselves of if they are aware of their existence. For example, health care benefits are generally available to those in financial need who require inpatient care. The challenge is to identify the veterans, win their trust, and deliver needed services to those who are eligible. Our direct outreach efforts are ongoing; but, in candor, we have no systematic means of gauging the impact of prior VA outreach efforts.

We do agree with the underlying premise of section 4--that there is a need for a more comprehensive approach to our outreach efforts. In our experience, however, the most effective outreach appears to be outreach to those working most directly with the homeless-- shelter operators, charitable and service organizations, and social workers--who are able to make referrals to the VA. It seems particularly important, therefore, that our regional offices and medical centers continue to stress collaborative efforts within their communities. We should stress, however, that effective outreach is only the initial concern: effective follow-through is as significant. The process of getting maximum help from the VA requires one to report to medical facilities, drug abuse clinics, regional offices, etc.; the homeless veterans often fail to keep those appointments. However, given the exemplary record of voluntary service organizations in assisting veterans, we are confident we can overcome this problem through a program of volunteers sponsoring homeless veterans and assisting them through the system.

DATA GATHERING

We generally share the concern underlying section 5 of the bill, that it would be helpful to obtain more data on the numbers and characteristics of the homeless veteran population. As we have sought to underscore in this testimony, however, VA has actively attempted to confront this problem, notwithstanding controversy surrounding its precise magnitude.

We are, of course, aware of, and my staff has been analyzing, the many surveys on the homeless that have been done in recent years. Those studies, including surveys in Los Angeles, New

York and Ohio which sought data on veteran status, provide a basis through extrapolation to project estimates on the number of homeless veterans nationally. Certainly there are questions regarding the reliability of these data. Our best efforts to undertake still another study, however, would likely be compromised by the problems inherent in the task. Thus, the more specific the questions posed to the homeless population, the less likely the probable accuracy. In essence, we would anticipate that such a study would likely be similar to previous efforts which have simply provided a range within which the population would fall.

CHRONICALLY MENTALLY ILL VETERANS

The VA has in recent months initiated important new efforts targeted at improving care of the chronically mentally ill veteran. VA has long sought to reduce seriously ill psychiatric patients' dependency on institutional care and to improve their success at independent community living. While VA's mental hygiene clinics and day programs successfully meet the needs of thousands of patients, there remain many veterans whose community adjustment is marginal and whose reliance on institutional care is continuous because community-based programs aren't available. Because of disability, infirmity, geography, or a combination, these veterans cannot adjust to community living unless their clinicians are able to provide treatment in the communities where they live.

We are providing $3 million per year for 3 years to set up and evaluate demonstration projects in the northeastern United States to provide such treatment alternatives. (We are also mounting an extensive alternative care program in Puerto Rico.) Of some 22 proposals submitted by VA medical centers, 11 have been selected for funding. Three of them are designed to allow patients who have been institutionalized for many years to be properly established and maintained in the community while projects at the eight other sites aim to strengthen the treatment of seriously ill veterans currently living in the community who frequently return to the hospital and require extensive treatment.

Last session, VA officials testified in support of legislation to permit us to conduct a pilot program to contract with halfway houses and other community-based psychiatric treatment facilities to provide care to certain veterans with chronic psychiatric disabilities. With Congress' recent enactment of H.J. Res. 102 which provides authority and funding for such a program we welcome the opportunity to establish that program and explore its effectiveness. In light of the enactment of that provision, however, we see no need for the enactment of sections 5(a) and (b) of S. 477. In that connection, we would note that VA reporting systems for prior fiscal years did not attempt to discriminate and tabulate data on the basis of whether patients were "chronically" mentally ill or otherwise, and we cannot reasonably retrieve such data retrospectively.

In closing, let me assure you, Mr. Chairman, that VA is and will remain committed to assisting homeless veterans. We welcome the opportunity to work closely with the committee as we proceed in this important area.

Statement of

The American Legion

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by

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before the

SENATE VETERANS AFFAIRS COMMITTEE

on

FY 1988 VA BUDGET, SECTION 4(b) OF S.6, S.279 AND S.477

FEBRUARY 18, 1987

STATEMENT OF JOHN F. SOMMER, JR., DEPUTY DIRECTOR
NATIONAL VETERANS AFFAIRS AND REHABILITATION COMMISSION
THE AMERICAN LEGION
BEFORE THE COMMITTEE ON VETERANS AFFAIRS
UNITED STATES SENATE
FEBRUARY 18, 1987

Mr. Chairman and Members of the Committee:

The American Legion appreciates the opportunity to set forth its views on the proposed funding for the Veterans Administration following an initial appraisal of the budget submitted to Congress by the Administration for fiscal year 1988; and on several other matters relating to veterans benefits and programs.

The President has proposed for the Veterans Administration, budget authority of $27.575 billion, up approximately $475 million from FY 1987, and outlays of $27.045 billion, up nearly $135 million.

While this proposed increase in funding would appear to be a positive move on the part of the Administration, as this Committee knows there are a number of ill-considered proposals woven through the fabric of this budget, and each of them will be addressed in detail later in this statement.

Mr. Chairman, at the outset we feel it necessary to reiterate The American Legion's long-standing philosophy on the funding of veterans benefits and programs. This organization is totally committed to veterans, and therefore, stands for full funding for veterans programs; by which we mean there should be provision of such funds as are necessary to effectively carry out the programs that have been established by Congress. We support all of those programs. Each of them had a purpose when enacted, and each has been adequately justified as currently meeting a legitimate need of the veteran population. We are not aware of any programs at present that are superfluous or redundant.

Additionally, we feel it imperative to emphasize the fact that the portion of the total Federal budget consumed by veterans programs continues to decline, as it has consistently for the past twelve years. In FY 1975 the VA budget represented a full 5 percent of the total Federal expenditures, and in the current fiscal year it represents about 2.5 percent.

It seems that each year OMB devises new methods by which to attempt to whittle away at veterans programs. Thus we are grateful that the Congress, under guidance and counsel of the Veterans Affairs Committees, maintains a high level of responsibility in the formulation of the VA budget.

Before providing comment on specific budget items, which will be done for the most part in reference to the departments of the VA that administer them, we shall first address the legislative proposals set forth in the budget message. They are a miscellany of old and new ideas, some of which seem to totally ignore the anticipated demand for essential benefits and services.

LEGISLATIVE INITIATIVES

# The Administration recommends a cost-of-living adjustment of 3.5 percent in compensation and related benefits to be effective December 1, 1987. The position of The American Legion is that these COLAs should be at least consistent with increases in the Consumer Price Index. The proposed 3.5 percent increase for those disabled in service - the most deserving of all Federal beneficiaries - is consistent with the current rate of inflation.

# The budget proposal contains an initiative that calls for veterans' disability compensation and survivors' DIC rates to be indexed, by statute, to automatically increase by the same percentage which Social Security benefits increase. The American Legion is opposed to the indexing of compensation and DIC benefits, and we have testified in opposition to identical proposals several times in the past. We have found that through the years, Congress has been fair and generous in providing annual cost-of-living adjustments in these benefits for the service-disabled and the survivors of service-deceased. Equally as important is the fact that the hearings by the Veterans Affairs

Committees on legislation relating to the COLAs, provides a forum at which other legislation on issues such as Special Monthly Compensation eligibility criteria, and the development of additional presumptive disabilities may be discussed and deliberated.

# Another proposal would change the eligibility for the plot allowance, to make it consistent with the eligibility requirements for basic burial allowance. The American Legion is totally opposed to this idea. We feel that Congress made a mistake when it restricted the criteria for burial allowance. We are mandated to push for the restoration of the former eligibility criteria for the burial allowance to all veterans, and to increase the amount of the plot allowance.

# An amendment to section 806 of title 38, U.S.C. to authorize assumption by the VA of full responsibility for administration of the Veterans Mortgage Life Insurance program is proposed. We understand that under current law a private carrier acts as the insurer in this program, and it is reported that such an arrangement has proven costly and inefficient. In looking into this situation in more detail, we found that there are only about 6,000 veterans in this program, and approximately 200 claims are handled per year. Therefore, we see no reason why the VA Insurance Service cannot absorb this additional work, and we support the proposal.

# Proposed legislation would authorize the Department of Defense to budget all benefit costs associated with the new (peacetime) GI Bill. The American Legion is mandated to support this initiative. It is our position, and has been for several years, that the peacetime GI Bill should be funded by DOD, because it is a recruitment and retention tool for the Armed Forces, rather than a readjustment program as that term is defined, and administered by the VA, because that agency has in place the mechanism needed to efficiently run the program.

# An initiative to increase the loan origination fee under the VA Loan Guaranty Program is included in this proposal. We are opposed to the increase in this user fee

from 1 percent to 2.5 percent. In addition, the Legion opposes the idea of making this a permanent fee by removing the sunset provision. Under current law authority to collect the fee terminates on September 30, 1987. We believe there are other means of assuring the solvency of the Loan Guaranty Revolving Fund, and we are prepared to continue to work with the Congress in developing them. The user fee cannot be viewed as anything other than a tax upon a traditional and economically useful benefit. This fee particularly impacts veterans with low to moderate incomes who would never be able to afford a home except through this program, as well as active duty military personnel whose families must periodically relocate.

# Legislation will also be proposed to establish a lender/borrower negotiated interest rate with respect to VA home loans. We will oppose any change in the law that would allow the lender and veteran borrower to negotiate the interest rate on these loans. It is felt that this would adversely effect the interest rate charged to veterans who want to take advantage of the no down payment feature of the program. Further, we see nothing that would adequately protect veterans from unscrupulous lenders if such a practice were implemented.

# Proposed legislation would repeal the authority that permits VA to make education loans. This has been attempted several times in the past. Although an earlier cost-savings measure, the Omnibus Budget Reconciliation Act of 1981, limited the number of individuals eligible for VA education loans, those who retain eligibility and who depend on these loans could be forced to discontinue their program of education or training. Thus, The American Legion opposes this initiative as we have previously.

DEPARTMENT OF VETERANS BENEFITS

Direct benefit programs administered by VA through the Department of Veterans Benefits will consume 57 percent of the total VA budget in FY 1988. These programs are, for the most part, entitlements that statutorily must be funded, and they are benefits that are meeting the real needs of the veteran population they are intended to serve.

These benefits are administered through 59 regional offices. The proposed budget calls for a decrease in average employment in DVB of 296 FTEE. This includes FTEE losses of 255 in Compensation, Pension and Education; 95 in Veterans Services, and 16 in Vocational Rehabilitation and Counseling. Small FTEE gains of 30 in Insurance, 24 in ADP Systems Management, 12 in Loan Guaranty and 4 in Executive Direction are also proposed.

Mr. Chairman, if these employment reductions are enacted, the average employment in the Department of Veterans Benefits will have been reduced by well over 5,500 FTEE since FY 1979. This figure does not include the transfer of the Office of Data Management and Telecommunications into DVB, because ODM&T personnel are not involved in the hands-on delivery of benefits and services.

Time after time The American Legion has cautioned this Committee and others that the Department of Veterans Benefits cannot continue to accept consistent and persistent personnel cuts. These losses have caused innumerable problems in the regional offices, and are adversely impacting on the quality and timeliness of the delivery of benefits and services to veterans.

The summary accompanying the Budget Request states that the Department's employment request decreases by 296 FTEE in 1988, due to productivity improvements and an overall decline in workloads. It states that included in the 296 FTEE decline is 117 FTEE in modernization savings. The remaining 179 FTEE are attributable to caseload decreases and general productivity improvements in all benefit programs except Loan Guaranty. These caseload reductions, says the summary, are commensurate with our aging veteran population.

Mr. Chairman, this, in our opinion, is typical OMB boilerplate used to disguise the fact that there is an over $8 million savings associated with the proposed reduction in employment.

As we have stated in the past, The American Legion is supportive of economy of personnel in management, and maximum productivity by all Federal employees. However, the complexity of veterans claims has increased due in part to issues such as the effects of exposure to Agent Orange and ionizing radiation, and the pathology of post-traumatic stress disorder, just to name a few. The more complex the issue is the more man hours required per case. A certain minimum of personnel is needed to properly process cases, without delay-causing errors that have to be corrected; and productivity can only be used as a relative guide when considering the amount of work that must be done in the processing of a single case for an award of benefits.

The American Legion is not convinced that the Department of Veterans Benefits can operate effectively at the projected level of employment.

DEPARTMENT OF MEDICINE AND SURGERY

To The American Legion, there is no question that the most sensitive and vulnerable area of the Veterans Administration budget is the medical care program. This is because, unlike the direct benefit programs that are statutory, the viability of the medical care program depends entirely upon the appropriation of funds by Congress. Unfortunately, medical care is also becoming a target of the Administration's attempts to effect further cost savings.

The proposal for all medical programs for FY 1988 is slightly over $10.2 billion, representing 38 percent of the total VA budget. This is an overall increase of approximately $339 million over the current fiscal year funding. Direct medical care consumes the largest part of this funding at just over $9.9 billion. While on the surface this increase would appear to be adequate, one finds a number of shortfalls upon closer examination of the medical care account.

Let us begin with the fact that the Administration's figures are somewhat skewed, in that it has boasted a $414 million increase in medical care over the FY 1987 level - however, that is after the proposed rescission of $75 million from the FY 1987 medical care budget. The funds that are to be eliminated are those that would otherwise be used during the last five months of FY 1987 for the treatment of category C veterans.

This proposed reduction was reported as Rescission Proposal No.: R87-70 in the Federal Register of January 9, 1987. We understand that the Congress has 45 days to act, subsequent to publication, and if no action is taken the monies must be made available by OMB.

With respect to FY 1988, OMB estimates that an additional $92.2 million and 2,350 FTEE can be saved, and 18.6 thousand fewer veterans would be treated under this proposal.

To The American Legion this is totally unacceptable. The Administration has stated that "the VA will continue to furnish care to nonservice-disabled veterans with incomes above $25,000 in locations where resources remain available". We truly believe that all veterans using the VA system would suffer under this plan. VA medical centers do not have a specific number of beds for each of categories A, B and C; they admit patients on the basis of medical need, and therefore the reduction of resources would have an adverse effect on all veteran patients.

Even more basic than this, however, is the fact that the Congress did not intend for category C veterans to be eliminated from the VA medical care system. PL 99-272 states that the Veterans Administration may furnish needed hospital and nursing home care to veterans in category C, who agree to pay a copayment, to the extent that resources and facilities are otherwise available. Nowhere in the legislative history of this law do we find even the faintest hint that the Congress felt that medical care funding should be reduced by an amount based upon the estimated number of category C veterans who may seek treatment from the VA. This is another case of OMB attempting to impose its will upon Congress.

The Administration's budget also includes a net personnel loss of 3,813 FTEE. Upon close examination of the figures for average employment, the situation looks even more dismal. Reductions of 4,267 FTEE in VA hospitals, 405 in outpatient services, 57 in miscellaneous benefits and services, and 4 from VA domiciliaries are proposed, as are increases of 913 in nursing home care units, and 7 in non-VA programs support. Of the 3,813 FTEE, 1,400 are to be eliminated during the last 5 months of FY 1987, along with the rescission of $75 million.

Mr. Chairman, The American Legion is totally opposed to any further reductions of health care professionals in the VA medical care system. During the past several years, OMB has used a variety of schemes in its attempt to shrink the Department of Medicine and Surgery. These have included personnel reductions based on inadequate funding, the implementation of programs such as the reduction of GS 11 through 15 positions, and by proposing to treat fewer "low priority" veterans. In reviewing the language of the FY 1988 summary of program resource changes, we see, aside from the projected loss of 2,350 FTEE based on the treatment of fewer category C veterans, other explanations given for personnel reductions such as a "savings" of 1,991 FTEE to be achieved through a projected one percent productivity increase.

In the opinion of The American Legion, further reductions in staffing will result in irreparable damage to the VA medical care system, and the erosion of the quality of medical care that is being provided this nation's veterans.

The budget proposal provides for approximately 1.4 million inpatient treatment episodes, and 20.4 million outpatient visits, decreases of 9,686 and 113,000 episodes respectively. According to the explanatory language these decreases are attributable to the elimination of category C veterans.

Unfortunately, we were unable to locate any specific figures in the budget documents, or from the VA relating to the proposed maintenance of average operating beds in the VA medical care system, other than a bar graph that shows a decrease in acute care beds, an increase in nursing home beds, and a decrease in beds overall, down to a level of 87.4 thousand.

As we have previously stated, the number of acute care beds within the system has continually eroded over the past several years, despite the precautionary statements presented by The American Legion that there should be no further reductions. As we have said in the past, this is a particularly bad time to be eliminating acute care beds, when aging veterans are increasingly experiencing catastrophic illnesses. Older persons almost always require treatment for an acute episode prior to the need for long-term care. It is obvious there is a need for more long-term care beds in the system. However, that does not cannote a decreasing need for acute care beds. The system must maintain a substantial number of acute care beds if it is to retain its ability to meet the full mix of treatment needs required of it by its primary mission, and its ability to fulfill the agency's assigned mission as the principal contingency back-up to the Armed Forces medical programs in case of a national emergency or an outbreak of hostilities.

The beneficiary travel program reflects a "resource realignment" based on a "reform" of the program that began in FY 1987, equating to a reduction of $18 million from the program, leaving a proposed funding level of $50 million for FY 1988.

The American Legion is opposed to the proposed changes to the regulations relating to the beneficiary travel program and so stated its objections in a letter to the Administrator of Veterans Affairs dated December 3, 1986.

As restricted by the proposed changes, the disallowance of the benefit is going to result in poor veterans not being able to avail themselves of medical care from the Veterans Administration that they need and would otherwise receive. The resulting lack of medical care for this class of beneficiary will have two subsequent results, both bad for veterans and for the VA. Either the veteran will not seek medical care until his or her condition has become so serious as to require hospital admission, thus resulting in higher cost to VA for the provision of care; or the veteran will simply not seek needed care and thus shorten his or her life span.

As stated in our letter to the Administrator, justification for the proposed changes in beneficiary travel regulations is apparently based on the increasing cost of the program account, which was in excess of $100 million for the immediate past fiscal year. Concern at the escalating cost is understandable. In our opinion the increased cost can be ascribed to two principal factors: the increasing number of aging veterans who need medical care, and possible weaknesses in the administration of the benefit at the station level. As to the first cause, it is a demographic development that has been anticipated for a number of years, and nothing can be done about it. Older veterans are developing the need for more health care. Evidence of this fact is seen in the escalation of the number of outpatient visits provided by VA each year - now in excess of 18 million and rising. It is also true that poorer veterans become ill earlier and more seriously ill than veterans higher on the economic ladder. These are demographic factors that have been plotted for years. Poor veterans who are ill are either going to get needed care from VA, or from other publicly supported medical programs, or they are going to do without, with the resulting adverse consequences described above. Those who live furthest from sources of care are going to suffer the most. That is an obvious fact. In the case of veterans, the Federal Government, through VA has a direct obligation to help these veterans as much as possible, and to do that the beneficiary travel allowance is an essential factor.

With reference to the second factor mentioned above, weaknesses in the administration of the beneficiary travel allowance, The American Legion is aware that one of the problems with this benefit has been the potential for abuse and/or sloppy administration of the benefit. It is our judgement that this problem can be minimized with careful administrative procedures. The Legion is supportive of reasonable efforts to effect careful management at the station level, and in its capacity as a service organization that assists individual veterans seeking VA benefits, it pledges active assistance to VA in accomplishment of this goal.

It is the position of The American Legion that with careful management, substantial cost containment can be effected. It is also true, however, that continuing increase in the cost of the benefit must be expected as the large pool of surviving World War II veterans continues to grow older, and as the cost of travel, along with all other costs, continues to show some increase. This is a justifiable and reasonable increase in the cost of veterans benefits that should be accepted and provided by the Federal Government.

We are pleased to see that there has been some attention given to extended care programs in the budget proposal. These programs encompass a broad range of care which include nursing home care and domiciliary care in both VA and state facilities; hospital based home care, adult day health care, and community residential care. There is a proposed increase of nearly $32.9 million targeted for these programs.

However, in reviewing the Summary of Resource Increases/Decreases relating to the State home program, it is noted that there is no proposal relating to an increase in the per diem rates. The American Legion is mandated to support an annual review and revision of the rates of reimbursement by the VA for the care provided veterans in State veterans homes.

The last increases in per diem rates were set forth in PL 98-160, effective April 1, 1984. We are aware that 38, U.S.C. 641(c) currently requires the Administrator to submit a report every three years to the Committees on Veterans Affairs on the adequacy of the per diem rates payable to each State for domiciliary, nursing home and hospital care for each veteran receiving such care in a State home. The first report was to have been submitted not later than June 30, 1986. The American Legion believes that the fair sharing of the cost of providing extended care for elderly and disabled veterans will encourage States to meet the needs of the aging veteran population, and we urge that the per diem rates be reviewed, keeping in mind that they have not been increased for three years.

Medical and Prosthetic Research

An increase of nearly $2.3 million in research funds is projected for FY 1988, up to $198.8 million.

It should be noted, as described in the budget document this appropriation provides funding for program activities in the following areas:

Medical research: Efforts in this area fall into two broad categories: research on medical, dental and psychiatric problems that are specific to the veteran population (spinal cord injury, Agent Orange, etc.); and research on general health problems that are particularly prevalent among veterans (e.g., alcoholism, aging and schizophrenia). Most of the investigators are VA clinicians and the close links between the research and patient care functions give the research program a clinical orientation that is directly related to its goal of providing quality medical care to the veteran patient.

Rehabilitation research: This program focuses directly on the needs of the veteran who is functionally impaired as a result of amputation, paralysis or the loss or impairment of his or her vision, hearing or speech. The latest computer and other technological advances are used to develop devices, techniques and concepts in rehabilitation that will minimize the disability and promote functional independence among disabled veterans.

Health services research: The goal of this research is to improve the effectiveness and efficiency of the Veterans Administration's health care delivery system. Health services researchers develop and disseminate information designed to help clinicians, investigators and administrators select medical interventions and administrative actions that are most appropriate to the Agency's mission, which is the provision of quality medical care services to the veteran patient.

The Veterans Administration's Medical and Prosthetic Research Program is a matter of particular interest to The American Legion, as a result of our sensitivity to the importance of research in the triad of the VA health care program: clinical care, education of health manpower, and research. These three functions cannot thrive independently - the presence of the other two are required. It would be impossible for the Veterans Administration to continue the provision of high quality medical care without a strongly funded research program. As this Committee knows, much of the research in which VA engages is basic research that is advantageous not only to veterans, but is of direct benefit to all mankind.

Average employment reflects a loss of 225 FTEE in medical research and no change in rehabilitation research and health services research, for a total of 4,417 FTEE. Available information does not reflect how these losses are to be accomplished. However, we are concerned, as we maintain that there is a need not for a reduction, but for an increase in available personnel for VA research activities. The Federal Government could make no wiser an investment than ensuring a vigorous and viable VA research program that benefits the entire American people.

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

A decrease of $400 thousand, down to $42 million is proposed for grants for construction of State extended care facilities.

We are extremely aware of the importance of the services provided by State homes, in that they have substantially reduced the burden that otherwise would have been borne by the Veterans Administration. There are now State homes in 35 States with 45 nursing homes, 43 domiciliaries, and 7 hospitals.

The FY 1988 request will provide for five projects which will produce an additional 371 nursing home and 450 domiciliary beds as well as 12 non-bed producing renovation projects in seven States.

In examining the program, we note that there is currently a backlog of 63 projects representing requests for grants of over $126 million. What this means is that if a State submits a request for a grant for funding of a project today, it may receive funds four to five years in the future.

The American Legion considers this program a wise investment, and when considering the ongoing efforts to reduce Federal spending, the role of the State homes is even more significant. Therefore, we do not believe it wise to reduce the amount of funding to this program. As we move into the period of an aging veteran population that will be with the nation for the foreseeable future, the States can be of major assistance to the Federal Government in caring for this population through State extended care facilities. However, in order to materially ease the pressure on the VA, adequate funding must be provided to the States so that proposed projects may be completed.

Grants to the Republic of the Philippines

The budget message provides a grant of $500 thousand to the Veterans Memorial Hospital in Manila to replace and upgrade equipment and to rehabilitate the plant and facilities. This grant has been made by the United States consistently since the end of World War II. The Veterans Memorial Hospital cares for many Filipino veterans who served in the Allied cause during WWII. There is certainly an obligation by this country to continue to show our gratitude and concern for them. The American Legion continues its support for this grant.

CONSTRUCTION PROGRAMS

The budget proposal recommends a nominal increase in the VA's construction programs of close to $37 million, up to $525.7 million.

The VA construction program is now funded by three appropriations: Construction, Major Projects; Construction, Minor Projects; and the Parking Garage Revolving Fund.

The Construction, Major Projects appropriation provides for constructing, altering, extending and improving any VA facility, including planning, architectural and engineering services, and site acquisition, where the estimated cost of a project is $2 million or more, or where funds for a project were made available in a previous major project appropriation.

The Construction, Minor Projects appropriation provides for constructing, altering, extending and improving any VA facility, including the same services as with major construction, where the estimated cost of a project is less than $2 million, and for personnel and other expenses of the Office of Facilities.

The Parking Garage Revolving Fund provides for constructing, altering, or acquiring by purchase, lease, donation, exchange, or condemnation (including site acquisition), a parking facility or facilities for the accommodation of vehicles of employees of medical centers, visitors and other individuals having business at such facilities, or vehicles used to transport patients to and from the facilities.

According to the budget document, no money will be reprogrammed from the major working reserve in FY 1988.

Mr. Chairman, The American Legion wishes to commend the Administration for proposing an increase in medical construction. It is our opinion that it reflects the need for renovation and replacement projects within the system. However, we do have some concerns, which we shall enumerate in a moment.

Among the major medical construction projects for which funding has been requested in FY 1988 are a bed replacement and modernization at the Dayton, OH VA medical center; environmental improvements and patient and nursing home care buildings at the North Chicago, IL VA medical center; design of a new medical center in Palm Beach, FL; design of a clinical addition at the Atlanta, GA VA medical center; outpatient and ward renovations at the Montgomery, AL VA medical center; a replacement domiciliary in Prescott, AZ; a clinical improvement addition at the Huntington, WV VA medical center; and a clinical addition at the Jackson, MS VA medical center.

Also included is a request for $5.4 million to relocate the Wichita, KS regional office to the VA medical center grounds. The Veterans Administration is reviewing the colocation of various regional offices onto the site of the medical center nearest that facility. Future projects will be proposed wherever they are demonstrated to be cost-effective. The American Legion is supportive of the merging of regional office and medical center activities when it is advantageous to the veteran population that is served by the facilities.

It concerns The American Legion that there are no nursing home care units included in the projection for FY 1988. The only funds requested for nursing care are $4.5 million under minor construction for the conversion of hospital beds to nursing care beds, and for renovation of NHC wards to meet VA criteria standards.

During the FY 1987 budget process, The American Legion expressed its extreme concern about the Administration's "plan for the future" that dictated no new independent nursing home care unit construction, and greater reliance on State veteran homes and community nursing homes. While we have no quarrel with using community nursing homes where appropriate, and we certainly support the State veteran home program, we must again express our concerns over this issue. There are some veterans who because of their levels of disability, must be cared for in VA nursing home care units.

As for the replacement and renovation projects scheduled for FY 1988, based on the reports of our Field Representatives who make site visits to approximately 65 facilities per year, we can assure this Committee that all of the work scheduled is needed, and some of it is long overdue.

It is distressing to see that only two replacement hospitals are included in the FY 1988 projection. As we have stated in the past, the Office of Management and Budget is only fooling itself by delaying the funding for badly needed projects. Such a practice is false economy and will end up costing more in the long run, rather than saving the Government money, because the longer the projects are delayed the more it will cost to build them. Allowing the capital plant of the VA medical care system to deteriorate makes no sense at all and, in fact, contradicts the Administration's position on national defense when one considers that VA medical centers constitute the principal contingency resource to treat returning casualties during a war or national emergency.

With respect to the Parking Garage Revolving Fund, $4.1 million is requested for FY 1988, which is the exact amount needed to fund the Huntington, WV VAMC parking garage.

The collection of parking fees is required at each medical facility where funds from the revolving fund are expended for a garage constructed or acquired by the VA at a cost exceeding $500 thousand or, in the case of lease $100 thousand per year; or a project for the alteration of a garage at a cost exceeding $500 thousand. In addition, the Administrator at his discretion may establish parking fees at other VA hospital facilities. The VA is currently reviewing options to establish parking fees where appropriate. The American Legion has gone on notice in opposition to charging patients, visitors of patients, and hospital volunteers a parking fee.

DEPARTMENT OF MEMORIAL AFFAIRS

The proposed funding for the Department of Memorial Affairs reflects an increase of slightly over $3 million, up to $47.7 million. The projected average employment for FY 1988 is 1,187 which is a decrease of 2 FTEE.

The American Legion feels that the proposed funding for the Department of Memorial Affairs appears adequate. We totally support the construction program that is underway, and we continue to work with the Department in attempting to acquire land for the expansion of existing national cemeteries.

It is the perception of The American Legion that the total Memorial Affairs program is progressing in a satisfactory manner. We commend the progress that is being made, and trust that the Congress will continue to support VA's plans with the modest funding required to carry out this program.

VETERANS EMPLOYMENT AND TRAINING PROGRAMS

Mr. Chairman, as the Committee is well aware, in his presentation of The American Legion's legislative agenda last fall, National Commander James P. Dean cautioned that major changes in the nation's employment and training delivery system were expected to be proposed during the 100th Congress. Since the Federal Government's job and job training programs for veterans are largely integrated into these programs for the general public, such changes are likely to have a profound impact on veterans experiencing employment problems. Commander Dean urged the Veterans Affairs Committees to become active legislative participants as these proposals arose, and to give careful consideration to such budgetary proposals as the Administration may offer, which would aid and abet these anticipated changes.

Thus, before we discuss the Administration's budget proposals for veteran-specific employment and training programs, we would like to review the Administration's plans, either explicit or implied, for the nation's job programs as a whole.

There are two sections of the Administration's FY 1988 budget for the Department of Labor to which we wish to direct the Committee's attention:

First, the Administration is proposing to relinquish most Federal control over the financing of the administrative cost of the Unemployment Insurance system. As you probably know, the States have the taxing authority for revenues to pay such basic unemployment insurance benefits as State law mandates. The Federal Government however, pays for the basic administrative costs of the Unemployment Insurance system, i.e., personnel, office space, paperclips, etc. These costs are not borne by general revenue, however, but are paid for through a special Federal tax on employers, authorized by the Federal Unemployment Tax Act (FUTA). FUTA monies, however, also pay for the cost of operating the State Employment Security Agency (SESA) system. The Employment Service, according to chapters 41 and 42 of title 38, is the principal vehicle for the delivery of job services to veterans, and operates under a Federal mandate for veterans preference in delivery of its services.

The American Legion notes that the Department of Labor's budget talks vaguely about a "refocus of the Employment Service". We believe, however, that it is the Administration's intention to "defederalize" the financing of the Employment Service, along with the Unemployment Insurance system, since both are financed by the same revenue source. If that happens, Mr. Chairman, without the active oversight of this Committee, we believe that such services as may be prescribed for veterans under title 38 will vanish, since the Federal control necessary to assure their delivery will also have disappeared. The American Legion has some specific proposals for revisions in title 38 which will forestall these consequences at least in part, and we will be sharing them with the Committee in the next several weeks. Nevertheless, the problem needs to be examined in light of the proposed budget, and we urge you to express strong concern over this matter to your colleagues on the Budget Committee, as a part of your recommendations.

Second, the Labor Department's budget proposes a greatly invigorated effort to assist the nation's increasing numbers of dislocated workers. The Workers Adjustment Assistance Program (WAAP) will be funded in part by consolidation of funds for Title III of the Job Training Partnership Act (JTPA), and the Trade Adjustment Assistance Program. Altogether, the Administration is proposing nearly a billion dollars for the new program during FY 1988. Since the Labor Department's Bureau of Labor Statistics indicates that nearly 26 percent of all dislocated workers are veterans, The American Legion regards a concentrated national effort to assist these workers as a high economic priority. We must add, however, that the details of WAAP have not yet been released, and we must reserve our judgement on the merit of the program itself until we have had the opportunity to review it. During a recent meeting of the Secretary of Labor's Committee on Veterans Employment, we indicated to Secretary William Brock that given their high incidence among dislocated workers, we firmly believed that veterans ought to be a major target group in the program. Secretary Brock responded that he agreed.

We would now like to turn to the specific funding levels for veterans employment and training programs within the Department of Labor and the VA. Once again, we are pleased to note that the basic funding for the Office of the Assistant Secretary of Labor for Veterans Employment and Training appears to be adequate. Having acknowledged that, however, The American Legion notes that once again the Administration is attempting to reduce the number of Local Veterans Employment Representatives, while providing nominal full funding for the Disabled Veterans Outreach Program. Last year, you will remember, the Administration proposed the same type of reduction, and justified it based upon a change in regulations which the Labor Department had instituted that eliminated the traditional service area population requirement it had used for many years. This year, however, the Labor Department is proposing to reduce the number of

LVERs required by its own amended regulations. It is clear that OMB has set an absolute budget mark for both programs, and subtracted from that the number of DVOPs required by title 38's statutory formula. The balance determines the number of LVER positions. Title 38, however, is explicit in requiring a waiver for a fulltime LVER based solely on determination of need, not OMB's mark. Last year, Congress agreed to fund 1,432 LVERs and restored nearly $8 million to the budget to do so. We urge this Committee to recommend a similar course to the Budget Committee for 1988.

Finally, we would like to turn to the Veterans Job Training Act (VJTA) program which, as this hearing is taking place, is shutting down throughout the nation due to lack of funds. The Committee is undoubtedly aware that it was not until nearly the end of last year when either the Department of Labor or the veterans service organizations had any inkling that VJTA funding was near depletion or that the VA, at the prodding of OMB, had allowed what will ultimately amount to $8 million to revert to Treasury. This continued lack of support by the Administration, and, surprisingly enough, by the VA itself, is the principal reason that no new or supplemental funding for the program appears anywhere within the new VA budget.

Last year, the Congress authorized the transfer of $35 million in minor construction funds to VJTA. The Administration even opposed this proposal, although it involved no new monies, on the grounds that the program had been slow to spend the original $150 million in appropriations. Now, with the contention that the program could not spend the $35 million (and hence was not needed) put to the lie, the Administration still refuses to provide any money to continue what has turned out to be a very successful job program. As the Committee knows, $30 million still remains from the original authorization, and in the Legion's view, should have been included in this budget, based upon the program's increasingly positive performance. We recommend that the new budget provide the additional $30 million in the 1987 supplemental. In addition Mr.

Chairman, we look forward to working with you in reauthorizing VJTA until the end of 1991.

CONCLUSION

Mr. Chairman and Members of the Committee, in this statement we have set forth the positions of The American Legion on a variety of subjects that are included in the Budget Message of the Administration for the VA which we consider to be of special importance to the nation's veterans. We have spoken to those programs we believe to be of highest priority in an agency whose activities are all of high priority, because they are intended to respond to the needs, first of those who were disabled in war service, and then to the reasonable needs of all those who served honorably when called to do so by the nation.

As has been stated to this Committee on many occasions, it is the position of The American Legion that when the national priorities are established, funding for veterans programs should rightfully rank second only to national defense.

The proposed Veterans Administration budget for FY 1988 reflects an increase over the current fiscal year's funding, but it also contains some serious shortfalls. The fact is that veterans benefits and services, unlike most other domestic programs funded by the Federal Government, do not consume an increasing share of the Federal dollar.

Consistent and persistent staffing reductions in the Departments of Veterans Benefits and Medicine and Surgery are going to result in irreparable damage to the programs carried out under these Departments. The losses in DVB have caused innumerable problems in the regional offices and are adversely impacting on the quality and timeliness of the delivery of benefits and services to veterans.

The FTEE reductions in DM&S that are constantly chipping away at the number of health care professionals in the system are going to result in the erosion of the quality of medical care that is being provided this nation's veterans.

We endeavor to leave this Committtee with the understanding that The American Legion does not consider the Administration's request for funding of all programs administered by the Veterans Administration to be satisfactory. We have offered specific comment on those areas in which we feel there are the most glaring inadequacies, and we have addressed each of the legislative initiatives with respect to the concerns of this organization.

We trust the Committee will examine and consider the problem areas we have identified. As time and opportunity permit, we will be prepared and look forward to discussion and dialogue with the Committee about the various veterans programs that will be under consideration during this session of Congress.

Mr. Chairman, we shall now address the several legislative measures that are not specifically related to the FY 1988 VA budget on which we have been invited to comment.

The first is section 4 of S. 6. This provision would amend section 612A(g) of title 38, by delaying the reporting requirements and the ultimate transition of the Readjustment Counseling program from a program primarily providing services through the Vet Centers, to a program primarily providing assistance through VA medical care facilities, if the Administrator does not have available the results of the Congressionally mandated study on PTSD and other post-war psychological problems. We are aware that the contractors conducting this study, which was due October 1, 1986, are experiencing delays, and as a result VA has proposed moving the due date for the report on the study back one year to October 1, 1987.

The American Legion realizes the importance of the availability of the study findings in the formulation of the pre-transition reports. Because of this, and the fact that we are mandated to support a continuation of the Vet Center program, contingent on a plan wherein decisions on assimilating the readjustment counseling program into the

VA medical centers will be made on a case by case basis, as the utilization of services diminishes, we support this proposal.

The next measure, S. 279, is very similar to the preceding proposal, except that it very specifically sets forth one-year extensions of the dates by which each of the pre-transition reports must be made, and the date of the transition itself. In addition, this bill would ensure that the Administrator takes into consideration the findings of the study mandated under PL 98-160, when developing the required reports. And, it would extend by one year the date by which the PTSD report must be completed, making the deadline October 1, 1987.

The American Legion supports this measure for the same reasons set forth in our support of section 4(b) of S. 6. The readjustment of Vietnam veterans continues to be a priority issue of this organization. The Vet Center program, since its inception, has played a major role in providing readjustment counseling, referral services, individual therapy, marriage and family counseling, crisis intervention, vocational counseling and several other psycho-social services to Vietnam veterans who have not totally completed their post-Vietnam recovery and readjustment processes. In addition, Vet Centers work closely with most if not all of the 13 existing inpatient post-traumatic stress disorder units. The Vet Center staffs refer many Vietnam veterans with severe PTSD to inpatient units, and following their discharge from a structured treatment program, provide the veterans with aftercare for a prescribed period of time - in most cases a year or more. We are not, in this support, advocating a permanent and total elimination of the transition. However, as previously stated, Resolution No. 548, approved by the Delegates to our 1986 National Convention, mandates The American Legion to support legislation to amend section 612A(g)(1) of the title by eliminating the date by which the transition of the readjustment counseling program from the Vet Centers into VA medical care facilities is to be accomplished; and to support a continuation of the program contingent upon a plan wherein decisions are made on a case by case basis, as the utilization of services diminishes. We feel that this is a responsible position.

Mr. Chairman, The American Legion is very pleased to see that this Committee, under your leadership, is broaching the issue of homelessness among our nation's veterans. The provisions set forth in S. 477 constitute a good first step in addressing what is undeniably a very difficult problem, the complete solution to which is probably beyond the capability of the Federal government in these times of high budget deficits and major economic change. We do, however, have some specific suggestions about particular provisions of this bill which, in our view, need adjustment so the resources of the Federal, State, and local governments may operate together in a truly coordinated effort. In this regard, we favor a holistic approach; one which attempts to come to grips with the nature of the homeless veteran population, and develops rehabilitation strategies for its differing segments.

Of the major provisions of the bill, we find the section on assistance in providing shelter to be the most troublesome, particularly the transfer of homes which the VA has acquired as a result of default on a guaranteed loan. It is our belief that the lease of these homes as shelters will in many cases have a deleterious effect on relations between the VA and the local community. As you are aware, Mr. Chairman, residential communities have been and are very resistant to the placement of shelters, halfway houses, or other publicly supported residential facilities in local neighborhoods. We foresee highly publicized conflicts between the VA and local governments and community associations in placing the homeless in such shelters. Moreover, we believe there will be a considerable cost factor involved in refurbishing many of these homes to the point of habitability in conformance with local building and health codes. The alternative would make the VA a major slumlord in many cities. The bill is also not specific about who would be responsible for the taxes and upkeep of these properties. It the VA bears such responsibility, leasing the property will not help staunch the drain on the Loan Guaranty Revolving Fund. We hasten to add that we are not necessarily rejecting this provision out of hand. Indeed, under certain circumstances, veterans and their families, especially those temporarily dislocated by joblessness or underemployment, could benefit from this measure. The bill does not, however, set forth guidelines to define these circumstances, or the discretion of VA officials in choosing which properties, and under what conditions, might be so used.

The American Legion supports the use of underutilized VA facilities as shelters, similar to the current program of the Defense Department. Cost considerations, however, in assuring that these facilities are habitable should be borne in mind, and we would suggest that prior to implementation, the VA should include a detailed site identification and rehabilitation cost estimate along with its 90-day report under section 4.

With regard to these shelters and the ten site-/two-year pilot program, The American Legion believes that stronger emphasis should be placed on rehabilitation. While the reality of veterans having to sleep on the streets is obviously pressing, permanent remedies for individuals in that situation are not obtained merely through shelters. Any program which Congress enacts ought to require that any organization leasing underutilized VA properties should also have detailed rehabilitation plans as a condition of the lease.

In designing the ten pilot projects, VA facilities in each of the ten sites should place primary emphasis upon planning for rehabilitation, with these plans differentiating among the various causes of homelessness, i.e., joblessness (including worker dislocation), chronic mental illness, and drug and alcohol abuse. The legislation should also emphasize the importance of training for both VA employees and volunteers conducting outreach to the homeless. Homeless veterans are a battered population, often mistrustful of anyone from the "outside" world, and require careful, patient approach. Training of both VA officials and volunteers to provide effective outreach is therefore essential. In addition, we would recommend that each of the ten pilot project sites develop a comprehensive needs assessment of community resources and a rehabilitation plan to determine how outreach resources might be best directed to maximize their impact upon homeless veterans.

In this regard, The American Legion believes the mandated VA studies of the problem might be most useful. We would recommend, however, that as a part of the report called for under section 5 of S. 477, the VA should develop an estimate of the size of the various homeless subgroups, such as dislocated workers, the mentally ill, and substance abusers, in order that a strategy for rehabilitation may be developed for each, subject to the availability of resources at the local community level.

Finally, Mr. Chairman, The American Legion applauds your concern over the potential misuse of resource allocation methodologies at VA medical centers which results in the premature discharge of chronically mentally ill patients, and to what extent this policy has added to the ranks of homeless veterans. We believe, however, that such a study might be rendered moot simply by examining the reasons for which the Department of Health and Human Services chose to abandon the use of Diagnostic Related Groups (DRGs) relating to both Medicare and Medicaid. Unless there are significant differences between mentally ill veterans and mentally ill nonveterans, the VA's use of DRGs for this type of patient ought to be promptly abandoned.

Mr. Chairman, The American Legion congratulates you on your initiative to assist homeless veterans. Our comments made today are in that context. Aside from our concern about the utilization of foreclosed property for shelters, we believe that the initiatives outlined in S. 477 will be more effective if (a) a study of the causes of homelessness among veterans is conducted; (b) a comprehensive community needs assessment is performed for each of the pilot project sites; (c) the VA develops rehabilitation strategies for each of the root causes of homelessness; and (d) proper training is provided both to VA officials and volunteers seeking to provide outreach to the homeless veterans in their communities.

That completes our statement Mr. Chairman, and again we appreciate the Committee's interest in the views of The American Legion.

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Fiscal Year 1988 Budget

Statement

of

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before the

Veterans Affairs Committee

United States Senate

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● A not-for-profit national veterans service organization ●

INTRODUCTION

When the Fiscal Year 1988 budget for the VA was unveiled by the Administration, it was heralded by VA officials as a budget which shifts and refocuses resources toward benefits and services for service-connected disabled veterans. In our examination of the Administration's submission for 1988, we find very little reality behind the rhetoric.

At VVA we are often asked by the media, by Capitol Hill staff and our own membership if the President's budget contains enough money for veterans programs and services. The point must be made once again that the amount of money is not the issue. How that money is spent is the essential, perhaps the only question to be answered. VVA's general position is that a VA budget of $27 billion is very adequate to fulfill the mission of that agency. At the same time, we do not believe that a sufficient amount is being spent for vital services in the areas of service-connected health care, rehabilitation and readjustment.

In addition to this budget failing to live up to its promise regarding a shift of priorities, we also see some significant failures in a fiscal management sense. The elimination of nearly 3000 positions in the Department of Medicine and Surgery can hardly be justified as claimed by better computerization and implementation of the means test. Nor will the "RAM" system provide an adequate guide as to exactly which positions should be eliminated.

We find, particularly in the area of health care, that this budget generally represents less of the same. This area under the president's budget represents a slightly scaled down version of what has always been a general health care system for veterans, rather than building towards a system of veterans' medical care.

In testimony before Congress in 1985 VVA called for a re-examination of the veterans benefits and services system along the lines of the Bradley Commission study of 30 years ago. VVA also urged fresh consideration of many of the conclusions and recommendations of that Commission. We believe now, more than ever, that our 1985 recommendations would provide much needed guidance in determining veterans budget priorities for 1988.

THE "INDEPENDENT BUDGET PROJECT" OF THE VETERANS SERVICE ORGANIZATIONS

Even though VVA was not involved in this project we feel it would be appropriate to make a few brief comments about this proposal. While we do see this Veterans Service Organization (VSO) joint submission of an alternative budget as a noteworthy event, and a number of suggestions contained in it are very worthy, VVA cannot endorse the proposal. We find regrettably, that for the following reasons, we do not agree with either the proposal as a whole nor do we approve of the general thrust;

1. This proposal's "more of the same" in that it appropriates more public dollars which appear to serve private interests more than the veteran. As an illustration, on page 32 of the VSO Budget there is a request for $9 million additional dollars and 200 FTEE for medical and dental residency positions at VA affiliated Medical Schools. We see no reason to assume that services to veterans would necessarily be enhanced or expanded as a result. We see no reason why the private Medical schools would not use the resources thus made free to expand their programs in other areas. Neither do we see how any proposal would enhance retention. This is a boon to the private interests of the Medical schools taken at the direct expense of the veteran.

2. We do not see it as our responsibility to to "manage" the VA via a separate budget proposal, as they have a large staff at 810 Vermont Avenue legally charged with that responsibility. It is however, absolutely essential that we are honestly and thoroughly informed of the budget, especially the VA's budget priorities.

3. VVA does recognize the VSO's effort for its commendable recommendation to reactivate the Health Professionals Scholarship, which inadvertently recognizes the apparent on-coming shortage of Nurses. This shortage is primarily caused by the changing roles of women in this Country, and the feeling that nurses in the VA system do not have control over their practice. However, the VSO document, like the Administrations submitted proposal, clearly does not speak to forces of fundamental change which are essential if the VA hopes to emerge in the 21st Century with the magnified potential to better serve the veteran. These forces must include:

   a. A Resource Allocation Methodology that is clear, greatly simplified, and is directly related to the actual cost per patient, per day, per diagnosis. Such a system must be one that both the Administrator for Veterans Affairs and the Service Chief at the Medical Center level can functionally understand and use to make rational, meaningful decisions as to the allocation of health care dollars to truly benefit patient care.

b. A management system which supports the providers of services to our veterans above a heavily centralized, politicized bureaucracy which attempts to drive the provider relative to VACO agendas instead of to the patient's need. While the VA heatedly denies it, VVA has strong indications that RAM management decisions increasingly distort and drive clinical decisions.

c. A management system that simply must decentralize giving control to the medical center director over several hospital management functions including day-to-day operations, planning, and budgeting. The medical center directors must have flexibility to adjust their operations to meet the needs of their patients which includes the authority to shift resources from one program to another. This is a critical issue. VA central office cannot run individual hospitals in lieu of the medical center directors. This is subtantiated not only in sound management practices but is in agreement with recommendations of the GAO, the Grace Commission and the Congress itself.

VVA does recognize the value in this first time combined effort of the AMVETS, DAV, PVA, and VFW. We, as colleagues representing Vietnam veterans, acknowledge the VSO's seeking our support, as we all work together with the Committees of Congress in the attempt to bring to those who have borne the battle the best health care possible.

HEALTH CARE

In view of the above we wish you to be aware of some of the vital issues of VA Health Care which concern VVA. In our approach to the FY 1988 Budget we are seeking assurance that the dollars spent are spent wisely. We are seeking assurance not only of adequate funding and cost effectiveness but of quality health care delivery. We need to be assured that:

1. Health care dollars and resources are directed primarily at direct "hands-on" care of the veteran and that the need for those dollars and resources are to be field-sponsored and directed (after given appropriate parameters for practice) and not centrally directed. The Resource Allocation Methodology (RAM) or other such Diagnostic Related Grouping (DRG) based resource allocating schemes

of the Veterans Administration Central Office, which are said to be designed to determine costs for the care of the patient, appear to be subject to VACO constraints resulting in constant model "fixing", constant "readjustment" and constant confusion at the Medical Centers where patient care is delivered. Medical Center Directors have a limited ability to correct their losses (i.e. "beat the system of the RAM Game") because they do not control the allocation of resources to fit the needs of the veterans at their Medical Center. The VACO constraints appear to relate more to the politics of driving a large, cumbersome centralizing system (top down) than to the consideration of the benefits of a bottom-up decentralization resource allocation methodology which takes into strong consideration the individual need of the patient as determined at the Medical Center level.

2. We need to be assured that the neuro-psychiatric patient receives a fair-share of the quality and quantity of care as reflected in the VA health care budget. Forty percent of all VA inpatients are being treated for neuro-psychiatric illnesses, yet only nine percent of the VA health care budget is directed for their care. The "pull" of the medical teaching affiliation programs is towards acute medical and surgical care at the expense of both the neuro-psychiatric and long term care patients. Budget

distortions in the name of research and education deny the clinical reality of the larger numbers of neuro-psychiatric and long term care patients now in the system. It is clear to VVA that the teaching affiliations are both necessary and important, and they do operate in the areas of long term care and psychiatry. Many of our veterans are multi-diagnostic in the sense that they can have neuro-psychiatric problems, medical problems and be elderly all at the same time. The issue here is: shall the clinical dynamics of our veterans dictate the resources required for appropriation or shall the centralizing administrative/political bureaucracy do it. We favor, as we believe this Congress and the American people do, consideration of the needs of the patient first. The VA may at least recognize the broad variability of psychiatric illness with more discrete DRGs and allocate resources to provide the necessary care.

3. We need to be assured that the service connected disabled veteran is not adversely affected by reduced health care through resource limitations induced by required budget cuts. We need to be assured that excessive treatment of non-service connected veterans, administrative staff engorgement, excessive bureaucratic programs, and high-powered administrative schemes of alleged management improvements, not directly assistive to the quality of

patient care, do not take precedence over care for those who have been lessened in the service of their country. VVA is well aware of the importance of the non-service connected veteran patient relative to the justification of teaching and research programs between the affiliating institutions and the VA Medical Centers. Indeed, if the VA treated only service connected veterans relative to its current budget it would be difficult to justify even minimally its existence in relation to its size. This factor alone provides a strong incentive for the VA to serve the non-service connected veteran but we insist this not be at the expense of the service connected disabled.

4. We need to be assured that the VA health care system is organized in a manner which gives the authority, responsibility and accountability for maximizing abilities and potential in the care of veterans to those who actually provide the direct services. The role of all staff above the Medical Center Director must be to provide the administrative support, systems support, resources, and ethical/integrative assistance needed as opposed to political interference and heavy-handed centralized management.

We were disappointed that a section of HR 4623 which called for a five hospital experiment in direct determination of resource allocation did not survive final passage.

This project would help determine if VA medical center directors can maintain or improve the quality of care by allocating resources independent of VACO total management. It is our belief that such a program of self-prioritizing based on local patient care needs rather than VACO needs would improve the quality of health care.

5. We need to be assured that the VA programs its health care delivery system away from the model of sickness, humiliation and dependency to one of wellness, illness prevention, independence and self reliance.

We are extremely concerned about plans to move the highly clinically and cost effective Vet Center programs into the Medical Center and its Out Patient Clinics - Mental Health or otherwise. These clinics often show little understanding of the PTSD patient and generally do not have the capacity to meet the patient's needs within the framework of a psychiatric model driven by the dominant DRG classification called psychosis. We are concerned about the loss of the veteran patient to a lower therapeutic level of psychiatric care which may be forced to pharmacologically "control" these patients denying them the opportunity to explore their disorder and resulting in decreased individual control and dignity. While such a system may desire to do better for these veterans, it is unable to because of the lack of medical political equality with medicine and surgery and the subsequent related resources that come from being less than main line.

6. The elimination of positions such as the 225 positions noted in the VA budget proposal for 1988 in Medical and Prosthetic Research is recommended with neither a clear rationale or understanding with regard to programmatic impact within a framework of overall health care delivery needs in the context of the finite resources available. What concerns VVA in this matter is that there seems to be a high degree of arbitrary caprice in this budget process. If one is not sure exactly where the almost 3,000 FTEE's are to be eliminated from DM&S how does anyone know that this is a "reasonable" proposal, as it is seemingly an unknown quantity as to what the effect will be.

7. In light of the requirement of the Administration to submit a report to the Committee not later than December 15, 1987 (pursuant to PL. 99-576) on the Administrator's current "use of authority to contract for care and treatment, and for rehabilitative services, for chronically mentally ill veterans through halfway houses, therapeutic communities, and other community based treatment facilities," VVA needs to be assured that all such funds for FY '87 will in fact be used for the purposes which the

Congress intended, and that no reduction of either requested or actual intended use of such funds is contemplated by the VA for FY '88. It is the view of Vietnam Veterans of America that any "savings" that are effected in this manner are illusory. These facilities, according to VA's internal studies, have led to significant reduction in the need for further, much more expensive, acute care for potential users of such programs. Not only is it potentially more expensive in fiscal terms, the human cost of veterans not assisted toward a positive productive role in our society is significant, and far outweighs any short term "savings."

8. VVA seeks assurance that resource needs are discretely defined and acted upon in terms of the planning process with the patient in mind. For example, it should not be necessary to reduce the equipment budget by one half and terminate non-recurring maintenance dollars in order to direct those funds to the personnel services budget because for a given fiscal year there is not enough dollars to support the current personnel ceiling. Such a practice could interfere with the flow of much needed equipment and obstruct the continuity of the planning process.

EMPLOYMENT ISSUES

In regard to the Veterans Employment and Training Service (VETS) proposed budget of FY 88, Vietnam Veterans of America notes that while the proposed level of funding for the VETS personnel is fully funded for 279 positions and the Disabled Veterans Outreach Program (DVOP) is fully funded for 1,894 FTEE positions, there is a disturbing and unwarranted cut in the Local Veteran Employment Representative (LVER) program. This decrease of approximately $5.4 million in the Administration's request would result in elimination of 170 to 180 positions nationwide. Vietnam Veterans of America takes exception to the Administration's assertion that this request "will support the legislatively mandated and administratively required positions" in these programs. VVA urges the committee to seek restoration of a funding level for LVERS that would maintain the current level of 1,379 FTEE.

In this regard, VVA believes that it is indisputable that viable employment is an integral component of readjustment. Over 40% of veterans seeking assistance at Vet Centers (VA Readjustment Counseling Outreach Centers) have significant difficulty with employment. Furthermore, over 450,000 veterans have been approved for participation in the Veterans Job Training Act since its inception, although only 50,000 (approximately) have been placed in jobs. The need is clear, so it is astonishing to VVA that the Administration has requested no funds to continue operation of the program which has been particularly useful as a tool to assist disabled and other long term unemployed Vietnam veterans to return to a productive role in the economic life of our nation. VVA urges the Committee to exercise the leadership necessary to ensure that this vital veterans readjustment program is continued with something approaching continuity.

Pursuant to the authority of Public Law 97-72, the U.S. Small Business Administration (SBA) has maintained a special direct loan fund for Vietnam Era Veterans, which last year was funded at a level of $19 million dollars. The Administration has proposed elimination of this program as part of the FY '88 Budget. Although SBA per se is outside the formal jurisdiction of the Committee on Veterans Affairs, this particular program was created by a law which originated in this Committee. VVA therefore urges the Committee to take up this matter to determine whether the need for this program has indeed diminished. We would point out that the SBA did in fact use all of the funds available in this program for business loans to qualified veterans.

VETERANS BENEFITS

A great deal of debate and discussion has taken place in regard to outreach by the VA in the past few years. VVA is keenly aware that denying veterans accurate information and knowledge of veterans benefits and services is tantamount to denying those vital services to veterans. The Congress has repeatedly recognized this in Title 38 by mandating VA to do adequate outreach and benefits counseling. Yet this proposed budget would only print 20,000 copies of the all but impossible to obtain, "IS-1" booklet entitled "Federal Benefits for Veterans and Dependents." Further, the VA indicated at the January budget briefing that as many as 75 of the 883 remaining "Veterans Benefits Counselors" (VBCs) position assigned to Regional Offices will be eliminated if the President's proposed budget is accepted. VVA and the Congress has been assured each of the last six years that the VA could adequately and properly do the job with fewer people, as the number of these positions were cut by 40% over the last seven years. However, we are asked to be "understanding" that there are not enough VBCs to answer the "Hotline" telephones at VA Regional Offices, much less do outreach to veterans in shelters for the homeless, or to other veterans in acute need of vital assistance.

VA HOME LOAN GUARANTY

In regard to the VA Home Loan Guaranty Program, Vietnam Veterans of America is dismayed that the Administration is seemingly continuing its six year effort to undermine this vital veterans readjustment program. VVA would note that the

Administration has signaled its intent in the proposed Budget document to proceed with the sale of $300 million of its loan portfolio, and to make all such sales "without recourse." VVA would point out that the General Accounting Office (GAO) has deemed this proposal to be unwise in its long term return to the government. In essence, the Administration is proposing a "fire sale". GAO stated that OMB's policies in this regard "will result in program objectives not being fully achieved." (GAO/AFMD-86-79; "Loan Asset Sales"; September 25, 1986.) VVA endorses GAO's prudent recommendation that the VA sell loans on a "structured basis, which would include some form of future recourse to the government."

The Administration proposal to have "a lender/borrower negotiated GI interest rate" would clearly result, in almost all cases, in a higher rate paid by veterans; especially those low and moderate income veterans dependent upon a no-or-minimum down payment loan. Further, there is a cogent school of thought that the rate set by the VA is a "leading indicatior" of rates on loans and helps dampen tendencies toward inflation in the mortgage market.

VVA has serious questions about the continuance of the methodology used in determining whether or not to acquire a VA guaranteed property in foreclosure. Not acquiring a property, the so-called "no bid" situation is now 15%, and rapidly growing. This jeopardizes future loans, especially "no down payment loans," and if this shift continues at the current rate, will result in the demise of the program as it has operated successfully for over 40 years. Approval of S. 477, the "Homeless Veterans Assistance Act of 1987" would be a much more proper and useful way to deal with "hard-to-move" properties in the VA Housing inventory.

VVA opposes the Administrations proposed increase funding fee from 1 percent to 2.5 percent as it is clearly nothing other than an unwarranted tax increase on veterans, which will further weaken this vital program for those veterans of moderate income seeking to enter the housing market for the first time.

STATE HOMES

Vietnam Veterans of America (VVA) supports the Administration's request for at least $42 million for grants for Construction of State Extended Care Facilities. This is the kind of creative leveraging of non-Federal dollars that makes a great deal of sense to VVA, and which we would encourage. Further, if the nation is to be able to adequately deal with the large numbers of aging veterans in a proper and decent manner, VVA believes that an additional pool of grant funds should be created. This additional program would make similar grants to the states, but on a competitive basis, with a view toward funding construction of facilities with multiple levels of care that are designed to assist and promote veterans in living as independently as possible. A fund of $10 to $15 million should be adequate to test this concept. In order to be able to provide more than "warehousing" levels of care, VVA also supports an increase in the per diem reimbursed to the states for care in state home facilities.

CONCLUSION

In summary, VVA finds that we are unable to support a budget which represents less of the same configuration of resources for veterans programs and services. Neither can we support the alternative budget presented jointly by four other veterans organizations as it appears to be, although an significant effort, only more of the same.

Wherever cuts or enhancements are made in the budget battle in the coming months, VVA asks that the overall resource allocation scheme make sense. We ask that a clear and definite priority be given to care and services for the service connected disabled, rehabilitative and readjustment programs. We ask that resource allocation decisions be made based on a system that is driven by patient needs. We also ask that any budget adjustments be made in consideration of overall program integrity.

The Constitution of Vietnam Veterans of America states that military service is an obligation of citizenship. A corollary of that principle is that veterans status should not be viewed as an entitlement to privileged treatment in American society. Another is that society has a corresponding obligation to provide prompt and effective benefits and services to those who were lessened by that service so that as nearly as possible they may achieve par status with those who did not serve.

The Bradley Commission Report of the 1950s was not the only prestigious body to recommend a refocus of priorities in the direction of those who paid the highest price for service. In 1974 the Twentieth Century Fund convened a task force chaired by former HEW Secretary Robert Finch and among whose members were Robert Ball, former Social Security Commissioner and William Driver, former VA Administrator. Their report in part reads:

"Present eligibility standards for veterans' benefits indiscriminately give preferential governmental assistance both to individuals who sacrificed literally everything by war-related total disability and to those who sacrificed little or nothing and left the service without any handicaps. Any rationale for veterans benefits based on sacrifice or handicaps of service would in principle call for more discrimination in benefits based on actual individual experience."

VVA asks that this principle be foremost as guidance in your budget deliberations this year.

Mr. Chairman, members of the Committee, that concludes our testimony on the FY 1988 veterans affairs budget. We appreciate very much the opportunity to appear before you on this important issue.

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Vietnam Veterans Readjustment Counseling Program
S. 279 and Sec. 4(b) of S. 6

Statement

of

Michael R. Leaveck
Legislative Director

Vietnam Veterans of America

accompanied by

Richard F. Weidman
Director of Government Relations

and

Thomas A. Sherwood
Director of Health Policy and Planning

before the

Veterans Affairs Committee

United States Senate

February 18, 1987

• A not-for-profit national veterans' service organization •

Mr. Chairman and members, Vietnam Veterans of America is pleased to be asked to submit a statement as to the future of the "Vet Center Program" and in particular our position on S. 279 which provides for a postponement of the "wind down" period of this most valuable program for Vietnam veterans.

The Centers for Disease Control, (CDC) in Atlanta recently released a study entitled "Post-Service Mortality Among Vietnam Veterans" which reveals a mortality rate among Vietnam veterans 45% higher than that for veterans who served elsewhere during the first five years after service. Most of these deaths were due to "external causes," a category which includes suicides, homicides, motor vehicle accidents and drug overdoses, all of which are deaths which may be readily attributed to emotional trauma related to combat.

In the past ten years, deaths due to "external causes" have leveled off, thankfully, and everyone will agree that this statistical decline has been due to an alleviation of the most severe of the post-service psychological problems of the Vietnam veteran.

At this point our interpretation of the study departs greatly from that suggested by CDC. Whereas CDC suggests that the psychological problems of Vietnam veterans are behind us, we rather interpret the data as informing us only that, obviously, Vietnam veterans are not dying from these service-related psychological problems in as great numbers.

We further suggest that these numbers are not as high principally because of the availability of intervention and counseling services, not because the problems have mysteriously dissipated.

In 1986, over 78,000 new client visits were recorded by the 189 Vet Centers across the country. In that same year the VA's own Vet Centers Planning Committee recommended that the program continue with no major alterations until there is a noticable reduction in demand. The Administrator's Readjustment Counseling Advisory Committee, comprised of representatives of the Veterans' Service Organizations made essentially the same reccommendation.

Despite these recommendations, through the VA's own policy mechanisms, and despite the lack of consultation with this Committee or any other committee of Congress, a decision has been made at the higher levels of the VA to begin closing Vet Centers. In fact, nine centers have been targeted for closure before the beginning of the Congressionally mandated wind down period of October 1, 1987.

In our review of the VA's proposed "pilot project" to close these nine Vet Centers, we are unable to grasp or even detect the clinical basis upon which the VA is formulating its policy. As we note in our budget testimony, monetary savings of such a move is insignificant at best, if not actually a negative savings.

Directing our attention to the legislation before this committee, S. 279, Vietnam Veterans of America offers unqualified support for each of the provisions of the bill.

We support, at the very least, a one year postponement of the phase down period of the program. We have not yet begun to see a decline in case-load in the overall program, and in fact 1986 saw the largest number of new Vietnam veteran clients seeking help in the history of the program. The long awaited study being conducted by the Research Triangle Institute will be an invaluable tool in assessing the extent of readjustment problems among Vietnam veterans currently. We hope there will be no further delays in this important study. We strongly maintain, however, that Congress need look no further than current Vet Center work load statistics to determine that there is a continuing need for the program.

We very strongly urge the adoption of the provision of S. 279 which would extend eligibility for readjustment counseling to active duty militiary and post-Vietnam combat veterans. In this respect we would also support a provision to include WWII and Korean War veterans for eligibility, but we are satisfied that a period of study of this proposal by the administrator would bring forth his reccommendation that such a move is indeed warranted.

As mentioned earlier, the RTI study of the psychological problems of the Vietnam veteran could very well be one of the most critical studies ever mandated by Congress. However, it should not be seen as the definitive document defining the need for or asessing the effectiveness of the Vet Center program. We certainly support the requirements of sec. 4(b) of S. 6 which would officially post-pone the due dates of transition reports because of the delays of this study, but once again we maintain that reccommendations as to the future of the Vet Center program should give more weight to client case load, and in particular, new client visits.

Mr. Chairman, once again we must reiterate, that Vietnam Veterans of America holds that any decision regarding the future of the Vet Center program must be based on sound clinical as well as budgetary considerations. Any future plan should not revolve around the issue of "control" or programmatic consistency devoid of considerations as to what is good for the client.

In the planning process, VVA reccommends that you also be wary of traps of rhetoric. The VA, for instance, in their proposed "pilot project" of closing nine Vet Centers, characterizes this undertaking as merely "relocating" the centers into the VA Medical Centers, not closing them. If a "store front" Vet Center which has existed in a community setting for a number of years, locks its doors, turns out the lights, takes out the phones and transfers the counselors, VVA would declare that Vet Centers closed. No tortured rhetoric or convoluted explanations by the VA or anyone else will convince the veteran on the street otherwise.

Mr. Chairman, Vietnam Veterans of America, as we have on many previous occasions, praises your thoughtfulness and dedicated leadership in this area. We thank you for your continued support of the Vietnam veterans readjustment counseling program. We appreciate the opportunity to present our views before you today.

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Homeless Veterans Assistance Act of 1987

Statement

of

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accompanied by

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and

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Veterans Affairs Committee

United States Senate

February 18, 1987

Mr. Chairman, Vietnam Veterans of America (VVA) thanks you for the opportunity to comment on S. 477, the "Homeless Veterans Assistance Act of 1987." VVA gives strong general endorsement to this proposed legislation, and commends you for your strong leadership on this issue.

It has been the contention of Vietnam Veterans of America for some years that the state of homelessness among veterans is a symptom of the failure of the system of the veterans service network to properly address the multiple needs of a significant number of veterans, especially Vietnam combat theatre veterans. The problem of lack of permanent domicile, while of immediate and critical concern to the individuals who are in this situation, is always derivative of, and associated with, other problems. There are many services that are provided for under Federal law, but obviously tens of thousands of veterans have not been properly reached.

We must do better. A difficult fiscal climate is no excuse. VVA would remind all those who say that "you can't help everybody" that nowhere in Title 38 of the United States Code does it say "for middle class veterans only." While VVA would maintain that clear priorities must be established, those priorities must be based on whether an individual has been lessened as a result of his or her military service, and not upon present socio-economic status or political clout.

Homeless veterans inclued persons who served in every period of service, from World War II to recently separated veterans. As you know, anything approaching definitive figures are hard to come by as people who are homeless are by definition not in any one place for a very long period of time, so it is difficult to obtain firm counts. Most studies seem to corroborate the estimate given by Mr. Raymond Cloutier of the U.S. Department of Labor that there are up to 230,000 homeless veterans on any given day of the year, and up to 550,000 at some point during a twelve month period. The Heritage Foundation has estimated that over 80,000 veterans are "chronically homeless" (i.e., without permanent shelter for one year or more). About a third of these veterans appear to be Vietnam veterans, with a higher percentage of Vietnam veterans among in the "Sun Belt" magnet states. VVA would suggest that this means that at least 25-30,000 Vietnam veterans are among the "hard core homeless." The various studies suggest that about 10% are World War II vets, about 15-20% are Korean or "Cold War" veterans, and about 30% are veterans discharged since the end of the Vietnam war. We stress that these figures are rough aggregate figures that vary greatly from locale to locale, and even at the same locale dependent on the time of year or day of the week. The "homeless veterans" population is an extremely heterogeneous group that shares only the lack of a permanent home and the fact that they served their country in the military as common denominators.

Homeless veterans are to be found in both rural areas and in urban areas, as well as in small towns. Most studies cited by VVA and others have all concentrated on urban settings. However, the experiences of the "trip wire" veterans in remote areas has been widely documented, although not systematically addressed in satisfactory fashion. The experience of VVA chapters from Greenfield, Massachusetts to Muskegon, Michigan to Eugene, Oregon have demonstrated to us that this is not a phenomena that is restricted to any particular setting. In the course of preparing for this hearing VVA contacted the Rural States Caucus among others, and could not discover any studies or estimates of numbers of homeless veterans in less urban areas. This is not perhaps surprising, given the logistical difficulties inherent in such a potential study.

VVA suggests, Mr. Chairman, that is would be reasonable to suggest that homeless veterans will be found in locales roughly analogous to the demographic distribution of the population at large, with a slightly higher percentage relative to the area population in wilderness areas and the "magnet" states across the Sun Belt.

Vietnam Veterans of America maintains that "homeless veterans" are a very heterogeneous grouping of veterans, who share only the lack of a permanent domicile and being a veterans of military service as common denominators. There are several patterns that we will try to delineate, however, as there is great value in trying to segment these groups of individuals in order to more reasonably fashion a real Federal response of leadership in meeting the needs of these veterans.

As to the specifics of S. 477, VVA has some questions as to Section 2 of the proposed legislation "Assistance in Providing Shelters." While we endorse the general concept of utilitizing vacant housing stock for persons who are in need of basic shelter, the machanics of this proposal are unclear to us. There are approximately 21,000 properties in the VA's inventory currently, about 10% of which has been held for twelve months or more. The overwhelming majority of these properties are single family dwellings. The question of the impact on the Loan Guarnty Revolving Fund (LGRF) is in fact a significant one. Transfer of these properties at no cost or nominal cost would mean that the short fall in the LGRF would be increased by that amount, which may well have to be appropriated by the Congress. It is an opern quetion to VVA as to whether there might not be better ways to employ the same amount of money, that would do more toward providing shelter than this method.

It is our understanding that passage of this section would, under no circumstance, increase the indebtedness of the veteran who had possession of the property before VA reposessed it. Vietnam Veternas of America believes that there needs to be reassurances on this point, as well as ensuring that veterans and their families have actual priority in occupying this housing.

VVA fully endorses Sections 3, 4, and 5 of the proposed Act, which we believe to be the essence of what the Veterans Administration can and should be doing to assist veterans who have problems that have become so acute that they are without a place to live. The need is for VA to recognize that these veterans need assistance, and that the VA has an obligation to systematically try to accord these veterans with medical care, servcies, and benefits to which they are legally entitled. It is difficult to achieve this goal when you have not assessed where you are and you don't have a plan. VA has yet to formally put together a plan at the National level, although the Administrator has committed to doing something, as yet undefined. At the VA Regional Office and local VA Medical Center level, there is as of now not only no formal mechanism or planning process, there is no structured communication between the Department of Medicine and Surgery with the Department of Veterans Benefits. The definition of the nature and parameters of the problem, and planning as to how best to meet this problem is the obvious first step, and sections 3, 4, and 5 would accomplish the prompting of VA that seems to be in order.

The part of the Act that deals with "Chronically Mentally Ill Veterans" is strongly endorsed by VVA. As pointed out earlier in this statement the number of veterans discharged from VA Medical Centers with diagnosed psychoses has risen each of the last six years, (see Appendix 1) while the number of operating psychiatric beds has been diminished each year. The obvious question is, what happens to these veterans when they are discharged. The answer in part is that while perhaps some of these veterans who are chronically mentally ill do not need acute, bed based care, they do need some sort of intermediate care. The VA heatedly denies that they are "dumping" chronically mentally ill patients onto the street, but yet have not "tracked" such patients to really discover what becomes of them after discharge. VVA strongly endorses this section of the proposed Act, which would compel VA to track such patients, and provide contract authority for care, treatment, and rehabilitative services in halfway houses, therapeutic communities, and other community-based treatment facilities for these veterans who cannot take care of themselves.

In conclusion, Mr. Chairman, Vietnam Veterans of America supports the "Homeless Veteran Assistance Act of 1987." It is regrettable that the Veterans' Administration did not undertake some of the actiions mandated in S. 477 under existing statutory authority, and have to be direted to do so. However, we trust that when so directed, the VA will begin to exercise the neccesary leadership to assist veterans whose needs have become so acute that they are without permanent shelter. Thank you for allowing us to present our views on this vital veterans issue.

Appendix I

Patients discharged with a diagnosis of schizophrenic disorder (ICDA Code 295)

	TOTAL DIAGNOSES	PRINCIPAL DIAGNOSIS	ASSOC. DIAGNOSES
1986	68,228	49,121	19,107
1985	63,922	47,505	16,417
1984	58,645	45,053	13,529
1983	57,621	46,360	11,261
1982	59,516	48,739	10,777
1981	59,228	49,556	9,672

1980 - The diagnosis of Schizophrenia was grouped with other diagnoses and the category was labeled "Psychosis not attributed to physical conditions (ICDA Codes 295-299).

Average Operating Psychiatry Beds

1986	22,617
1985	23,066
1984	23,689
1983	23,764
1982	23,748
1981	24,045

STATEMENT OF
DAVID W. GORMAN
ASSISTANT NATIONAL LEGISLATIVE DIRECTOR
FOR MEDICAL AFFAIRS
DISABLED AMERICAN VETERANS
BEFORE THE
COMMITTEE ON VETERANS AFFAIRS
OF THE
UNITED STATES SENATE
February 18, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

On behalf of the more than one million members of the Disabled American Veterans and its Ladies' Auxiliary, may I say how very much we appreciate the opportunity to appear here today.

Mr. Chairman, our testimony has been requested relating to the Fiscal Year 1988 budget proposal for the Veterans Administration; S. 477 the "Homeless Veterans Assistance Act of 1987; Section 4(b) of S. 6, the proposed "Veterans Health Care Improvement Act of 1987;" and S. 279 regarding a postponement of the "Vet Center" transition period and delay date of the VA's study related to post-traumatic stress disorder.

As you know, Mr. Chairman, on behalf of the Veterans Administration, the President is requesting $27.6 billion in budget authority -- an increase of $548 million over Fiscal Year 1987 funding levels -- to administer the various programs and services for this nation's 78.5 million veterans, their family members and survivors of deceased veterans in Fiscal Year 1988.

MEDICAL CARE

The Fiscal Year 1988 budget request for the Department of Medicine and Surgery (DM&S) calls for overall budget authority in the VA's medical care account of $9.97 billion -- an increase of $414 million over the Fiscal Year 1987 level.

Mr. Chairman, in our view, notwithstanding the proposed funding increase, the VA's ability to provide quality and timely health care to America's veterans will continue to erode.

This is so in view of the fact that $393 million of the proposed increase in the medical care account has been requested specifically to absorb the cost of payroll increases, including the costs of the 1987 civilian pay raise and the 1988 Federal Employees' Retirement System (FERS).

According to the budget documents we have been provided, the Administration's budget request proposes, among other things:

* a $75 million rescission to eliminate funding that would otherwise be used during the last five months of Fiscal Year 1987 for the health care needs of so-called "higher income, nonservice-connected disabled veterans" (category C) who are thought to be financially able to provide for their own health care needs (a proposal which is in direct conflict with Congressional intent as embodied in Public Law 99-272);

* treating 13,548 less veterans on an inpatient basis in VA medical centers;

* treating 113,000 less veterans on an outpatient basis;

* a projected 1% productivity increase (in reality an arbitrary 1% budgetary reduction) estimated to save $58 million and reduce full time equivalent employees (FTEE) by 1,991 in Fiscal Year 1988;

* virtual elimination of the beneficiary travel program; and

* maintaining and operating 2,600 fewer hospital and nursing home care beds than mandated by current statute.

As you may have noted, Mr. Chairman, an additional 1,981 FTEE are being proposed to staff new activations in Fiscal Year 1988. However, the cumulative effect of the Agency's average medical care employment in Fiscal Year 1988 will be a reduction of more than 6,200 FTEE (inclusive of the proposed Fiscal Year 1987 rescission).

In our view, Mr. Chairman, this Fiscal Year 1988 VA medical care budget proposal will only serve to further impede the VA's ability to provide quality and timely health care to this nation's entitled veterans.

According to all estimates, the Administration's proposed DM&S budget for Fiscal Year 1988 falls at least $300 million short of the minimum funding level necessary simply to maintain veterans' health care services at current Fiscal Year 1987 levels.

Mr. Chairman, we encourage you and members of the Committee to carefully scrutinize the Fiscal Year 1988 funding levels proposed for the VA medical care account. We believe such scrutiny will lead you to propose a realistic and meaningful funding level that will, at the very least, enable the Agency to provide health care services to those veterans so entitled.

In this respect, Mr. Chairman, we would further urge you to carefully consider the recommendations and funding levels as contained in the Independent Health Care Budget for Veterans which has been provided to the Committee. This budget document represents the cumulative and cooperative efforts of several major veterans' service organizations (AMVETS, DAV, PVA and VFW) and represents, in our view, a realistic funding level that would allow the Agency to carry out its mandated mission of providing health care services to disabled veterans.

MEDICAL & PROSTHETIC RESEARCH

Mr. Chairman, the Administration's Fiscal Year 1988 medical and prosthetic research request is $198.7 million ($14 million below the Fiscal Year 1987 funded level).

The DAV has, and continues to be, fully supportive of the VA's combined research efforts. It is discouraging, however, to continue to witness the large disparity in the funding levels for medical research ($185.8 million) and that requested for prosthetic research ($17.6 million). The DAV supports the mission of Health Services Research and Development and we are encouraged by and support the funding requested. Likewise, we support the request for $2.4 million to fund an epidemiological study of women Vietnam veterans and the $4 million requested to continue to support the ongoing Agent Orange epidemiological study.

CONSTRUCTION

The VA's Fiscal Year 1988 construction request totals $525.7 million. Mr. Chairman, while we support full funding of the VA's request for construction purposes, we are nevertheless concerned over the VA's effort to meet the pressing demands on the health care system.

As you know, greater numbers of elderly veterans are seeking nursing home care from the VA, yet, in this construction budget proposal no funding is requested for nursing home care bed construction. Additionally, we are concerned that this construction budget request fails to recognize the replacement and modernization needs of the VA's many aging health care facilities.

We have noted and support the VA's proposal to convert 282 hospital to nursing home care beds. However, in so doing, we would urge the Administration to move swiftly in the conversion process and, when and where indicated, identify additional acute care beds that may realistically be converted to nursing home care. In doing so, we trust an appropriate balance will be maintained to meet the acute, intermediate and long-term health care needs of our rapidly aging veteran population.

DEPARTMENT OF VETERANS BENEFITS

The VA's Fiscal Year 1988 request for the Department of Veterans Benefits (DVB) totals $551 million, an increase of $33.4 million over the Fiscal Year 1987 level. We are concerned, however, that average employment in DVB will decrease by some 296 FTEE.

Mr. Chairman, since 1980 some 4,900 employees have been slashed from DVB and, today, each regional office is barely staffed at minimum levels to adequately respond to the workload and demands for services placed upon it from veterans and their dependents.

We have grave concerns about the VA's ability to continue to provide needed services to beneficiaries and the proposal to reduce average employment will only serve to further curtail the services that the VA is charged to provide.

PROPOSED LEGISLATION

The Administration's Fiscal Year 1988 budget request proposes legislation that would provide for (1) an increase of 3.5% in the rates of disability compensation and Dependency and Indemnity Compensation (DIC), effective December 1, 1987; (2) index compensation benefits to the annual change in the Consumer Price Index; (3) change current law to provide for the VA plot allowance to be paid only in the case of those veterans who were either in receipt of VA compensation or pension benefits at the time of death or to wartime veterans who died without sufficient resources for burial; (4) increase the users fee on VA guaranteed home loans from 1% to 2.5%, effective June 1, 1987; and (5) amend current law to permit lender/borrower negotiated interest rates on VA guaranteed home loans.

Mr. Chairman, the DAV is pleased with the Administration's proposed cost of living adjustment in the rates of disability compensation and DIC benefits -- in recognition of the special consideration service-connected disabled veterans and their survivors should be given.

Accordingly, the DAV strongly supports the enactment of legislation that would provide disability compensation and DIC recipients with a cost of living adjustment in line with the rise in the Consumer Price Index, effective December 1, 1987.

As strongly as we support this rate increase, we adamantly oppose any effort to index compensation benefits to the annual change in the Consumer Price Index.

Mr. Chairman, in our view, the many and complex benefit programs administered by the VA deserve and, in fact, require continuous oversight scrutiny by the Congress and, specifically, the Veterans Affairs Committees.

Any attempt to index compensation benefits is, in our view, an attempt to diminish the oversight functions of the Congress. Such a result would not be in the best interest of the VA or, more importantly, the beneficiaries they are mandated to serve.

Additionally, we view the initiative to "standardize" the eligibility for the VA plot allowance as simply another example of an Administration effort to repeal an entitlement that has been bought and paid for by honorably discharged veterans. Accordingly, the DAV opposes this legislative proposal.

Mr. Chairman, the Administration is proposing several legislative changes to the current VA Home Loan Guaranty Program. Of particular concern to most veterans are the proposals that would increase the users fee from 1% to 2.5% and remove the Administrator's authority to set the interest rates for such home loans.

Quite frankly, these two legislative initiatives appear to be sufficient to effectively destroy the VA Home Loan Guaranty Program. Yet, the Administration is projecting that 340,000 loans will be generated next year by this program.

Mr. Chairman, why would that number of veterans willingly pay thousands of dollars in users fees for the privilege of using this program, even though not one nickel will be applied to reduce the principal of their mortgage? How much would they pay for this privilege over 25 to 30 years?

The DAV is adamantly opposed to any proposal to remove the Administrator's authority to set the interest rates on VA guaranteed home loans. Should this occur, interest rates would then be dictated by mortgage lenders at, we suspect, a level significantly higher than would be set by the Administrator. Without doubt, all veterans, including service-connected disabled veterans, would be adversely affected by such a procedure.

Coupling this exorbitant increase in the users fee with the removal of the interest rate ceiling nearly eliminates any benefit to veterans. We believe the Committee should carefully consider the adverse impact these proposals will have upon younger Vietnam veterans who are the primary beneficiaries of the program today.

Finally, Mr. Chairman, there is one proposal that is clearly missing from this budget request -- an estimated $40 million that is necessary for the VA to implement the changes to the Schedule for Rating Disabilities that were proposed by the VA last year.

As you will recall, Mr. Chairman, at Congressional direction, the VA conducted a study of veterans with hearing loss that was transmitted to the Congress during January, 1986.

As a result of that study, numerous recommendations were made by program officials of the Department of Medicine and Surgery and the Department of Veterans Benefits.

Most notable of those recommendations was the need to revise the Rating Schedule to more realistically assign disability compensation evaluations for veterans suffering with profound hearing loss.

As we understand it, the recommendations were constructed in the form of proposed regulatory changes and transmitted to the Office of Management and Budget (OMB) during September, 1986, for their review and approval. Apparently, the proposed regulations languished at OMB until late December, 1986, when they were returned to the VA, unapproved.

Mr. Chairman, Section 355, Title 38, U.S. Code, authorizes the Administrator to adjust, from time to time, the Rating Schedule in accordance with experience.

Implicit in the nomination and confirmation of Administrator Turnage to his present position was the President's faith and confidence in his ability to act in the best interests of our nation's veterans.

It is abundantly clear, in our opinion, that the Administrator's decision to proceed with the promulgation of these proposed regulatory changes was in the best interest of veterans. Equally clear is the impediment of these beneficial changes by OMB strictly on a fiscal basis.

The VA clearly recognizes the fact that substantial changes must be made in the methodology in which hearing loss is evaluated and compensated for by the VA. We would therefore request, in the best interests of the large number of service-connected disabled veterans who would be affected by these regulatory changes, that the Committee give careful consideration to adding, to the compensation and pension appropriation, an appropriate funding level that would allow the VA to implement their desired regulatory changes.

S. 279 and Section 4(b) of S. 6

Mr. Chairman, both of these measures would, in essence, provide for the delay, by one year, of the date on which the two year "transition period" of the Vietnam Veterans Readjustment Counseling Program is to begin -- from a program providing such services primarily through centers located in facilities situated apart from the health care facilities operated by the VA to a program providing readjustment services primarily through VA operated health care facilities -- from October 1, 1987 to October 1, 1988.

Additionally, both measures would provide for a one year delay in the due dates of the three separate reports required by Section 612A(g), Title 38, United States Code.

These consist of:

1. A report, due by April 1, 1987, which would state the Administrator's evaluation of the VA's effectiveness in meeting the readjustment needs of Vietnam veterans and his opinion as to the feasibility of moving forward with the transition effort;

2. A report, due by July 1, 1987, setting forth a plan and timetable for accomplishing the transition; and

3. A report, due by February 1, 1989, setting forth the VA's experience during the initial period of the transition process.

Mr. Chairman, the intent of these measures is clear when one considers the considerable difficulties the VA has encountered in attempting to "get off the ground" a comprehensive study relating to post-traumatic stress disorder

(PTSD). This mandated study was designed to identify the prevalence and incidence among Vietnam veterans of PTSD -- as well as other post-war psychological problems in readjusting from their military service.

It is unfortunate and very discouraging that the VA and Research Triangle Institute, Incorporated -- contracted to conduct the study -- have permitted the timetable to complete the study to be severely delayed. Without belaboring the issue, it is our understanding that the final report of the study will not be completed until December, 1988, a full two years behind the original due date.

Mr. Chairman, the DAV has continually expressed our commitment toward assisting Vietnam veterans suffering psychological problems associated with their military service. As you know, the DAV provided funding as early as 1976 for "The Forgotten Warrior Project" a study which lead, in October, 1978, to the DAV initiating our Vietnam Veterans Outreach Program. We feel it was, in large part, due to our efforts that the VA created their current network of Vet Centers.

We believe this program has been and will continue to be utilized by veterans of the Vietnam Conflict. However, we wish to reiterate our strong support for the concept that the VA must move forward to integrate these services into the mainstream of traditional and existing VA health care facilities -- VA medical centers.

Mr. Chairman, in view of the fact that the comprehensive PTSD study is required by law to be used in preparing the reports relative to the transition process, and because it is clear that the Administrator will not have the benefit of the study results for the preparation of the report due by April 1, 1987, and, if a consensus is reached that the results of the PTSD study are vital, as well as necessary to formulate the various transition reports, we would not object to the enactment of this legislation.

We do, however, wish to state our disappointment regarding the delays that have occurred because of the apparent flaws in the study's design. Also, we would strongly urge the VA to do everything possible to move swiftly to insure the completion of this vital study. To do less would not be in the best interests of Vietnam veterans.

S. 477, "Homeless Veterans Assistance Act of 1987"

Introduced by yourself, Mr. Chairman, S. 477 recognizes the existence of a tragic and growing reality in this country -- that large numbers of individuals suffer from a lack of adequate shelter and other resources and are unable to obtain the basic necessities for a dignified life and existence.

The DAV applauds you, Mr. Chairman, for your concern and timely introduction of this measure, particularly in view of the fact that veterans are estimated to comprise a significant segment of the homeless community.

On January 29, 1987, DAV National Employment Director Ronald W. Drach testified before the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing and Urban Affairs relating our observations of homeless veterans. Therefore, my testimony today will be directed to the specific provisions of S. 477.

Section 2 of the measure would:

1. Authorize the VA, under arrangements with various, specified, entities, to transfer certain foreclosed properties resulting from defaults on VA home loan guarantees to such entities for the primary purpose of providing shelter; and

2. Authorize the VA to lease or make temporarily available to such entities certain underutilized VA facilities for the purpose of providing emergency shelter.

Quite frankly, Mr. Chairman, the DAV has very serious concerns, from an organizational standpoint, relating to the use of foreclosed properties in providing shelter.

We do, however, feel that the use of underutilized or unused VA facilities by the VA for providing shelter is a viable and readily attainable proposal. We know that there are many such buildings situated on medical center grounds that could be adapted and used as a logical extension of the VA domiciliary program. Additionally, state veterans homes should not be overlooked as a potential source of providing temporary residence.

Section 3 would authorize the Administrator to conduct a pilot program and study of not less than 24 months, in at least ten geographic regions, to assist homeless veterans and their families.

As you are most likely aware, Mr. Chairman, the Department of Labor has recently initiated a "Jobs For Homeless Veterans" project in ten cities nationwide. Although we may not object to the VA's conducting a pilot program, we would envision that such an effort would not be duplicative but, rather, cooperative in nature with ongoing Department of Labor efforts.

Section 5 and Section 5(a) require the submission of reports on homeless veterans and chronically mentally ill veterans. In our view, these reports will result in the compilation of data that will enhance the government's knowledge, efforts and ability to assist these veterans.

Finally, Mr. Chairman, it is our belief that the VA has been providing and will continue to provide significant assistance to homeless veterans via existing programs and authority...specifically: benefit counseling, the provision of various health care services, and the extension of monetary entitlements (nonservice-connected pensions) to indigent veterans and their families.

As we envision the intent of S. 477, trained veterans' benefits counselors would be ideally equipped to provide a vast array of services, as would existing professional health care personnel. The VA should be permitted and encouraged to do what they do best. Existing community resources are perhaps in the best position to provide shelter and food. Where this may not be possible, appropriate utilization of VA facilities, as discussed earlier, may prove to be an appropriate means of providing temporary shelter and subsistence.

Mr. Chairman, this concludes my testimony and I again wish to thank you and the members of the Committee for allowing us this opportunity to present our views on these important issues.

VETERANS OF FOREIGN WARS OF THE UNITED STATES

OFFICE OF THE DIRECTOR

STATEMENT OF

JAMES N. MAGILL, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

WITH RESPECT TO

THE PRESIDENT'S PROPOSED FISCAL YEAR 1988 BUDGET FOR THE VETERANS ADMINISTRATION
AND VARIOUS LEGISLATIVE PROPOSALS

WASHINGTON, D. C. FEBRUARY 18, 1987

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

Thank you for the privilege of appearing before this distinguished committee to present the views of the Veterans of Foreign Wars of the United States with respect to the fiscal year 1988 budget for the Veterans Administration as proposed by the President.

According to the Veterans Administration, on September 30, 1986, there were approximately 27.7 million living veterans, 48.7 million family members of living veterans and 2 million survivors of deceased veterans. While obviously only a portion of these individuals will utilize the many VA benefits and entitlements available to them, they are all nevertheless potential beneficiaries and the VA must be prepared to adequately meet their needs.

Mr. Chairman, the President has proposed a FY 88 funding level for the Veterans Administration of $27.6 billion. This figure represents a $550 million increase over last year's total. However, the President is also proposing a $75 million

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rescission of FY 87 funds which the Congress has already agreed to spend on VA programs. Our first recommendation, Mr. Chairman, would be for the Congress, when presented with the rescission message, to reject it!

Most of the $75 million would come from the Department of Medicine and Surgery. In submitting the Administration's proposal, it was suggested the impact would be more greatly felt by category "C" patients as defined by Public Law 99-272. However, the VFW cannot visualize how these particular patients could be the only ones targeted. We predict that all categories will be affected and this certainly includes category "A" patients who now enjoy, thanks to the Congress, VA health care as an entitlement. We also question the Administration's decision to curtail health care to category "C" patients inasmuch as only this group contributes to reducing the deficit by actually paying the VA for health care through copayments. In addition, this particular group of patients is more likely to have medical insurance to help defray VA costs through third-party reimbursements.

As stated previously, the President's proposal recommends a rescission of VA FY 87 funds totaling $75 million. However, the Administration's proposed budget will only be implemented if the Congress accepts the Administration's recommendations. With respect to the proposed rescission, this money has been approved and targeted for programs by the Congress and its elimination only undermines the intent of the United States Congress.

Mr. Chairman, the President's budget proposal would scale back VA medical care by reducing VA employee levels by 3,810. Of course, this reduction in staff will only lead to a lesser number of patients being treated. This budget recommendation will effectively reduce admissions for inpatient, nursing home and domiciliary care by almost 12,000. There will also be a 113,000 reduction in outpatient visits.

These decreases cause the VFW much concern inasmuch as we predict an increase in demand for VA health care rather than a decrease.

The VFW is also concerned over the VA's $68 million funding level for the beneficiary travel account. We do not believe this amount will even come close to meeting the needs of our veterans. We have estimated this figure will barely provide for "emergency" transportation needs and, therefore, should be substantially increased.

With respect to major construction projects, the President is requesting $525.7 million, an increase of $36.9 million over FY 87. While the overall budget does show an increase, we are disappointed that the "replacement and modernization" activity shows a $102 million reduction from the FY 87 level. Approximately 53 percent of all VA beds are housed in buildings which are 30 or more years old. It can readily be seen that, unless the "replacement and modernization" activity is substantially enhanced, the VA's primary mission will be in jeopardy.

Another particular concern to the VFW is that no funds for new nursing homes have been provided because the Administration alleges that the VA can secure nursing home care through community and state programs. Here again, with the increasing demand from the private sector and the probability of long-term catastrophic care being approved under Medicare, as outlined by the Secretary of Health and Human Services, the VA may soon have to go begging for private nursing care space.

We are pleased the President recommends major construction projects to include Indianapolis, Indiana; Livermore, California; Waco, Texas and the Northern California cemetery. Also, the request for asbestos abatement projects is welcome.

The Veterans of Foreign Wars is also opposed to the excessing of property as requested by the President's real property initiative. Specifically, the Veterans of Foreign Wars does not approve of the request to excess some 90-acres of land in West Los Angeles and 32-acres at Sepulveda, California.

In summary, the construction budget is inadequate if the Veterans Administration is to maintain its current workload not to mention the impending increase in workload that appears on the horizon as stated previously. It is well-known that many buildings are 30 years old and some of these are of poured concrete construction wherein you cannot change your mind or exhibit any flexibility without a jackhammer. It is well-known that other buildings are in use which were built at the end of the Civil War, although, it is true that patients are not housed in these buildings. Over the years, some of the most antiquated type construction inherited from the military has been replaced--but not all. Here again, we have hopelessly outmoded physical plants which are able to produce high-quality care only through the dedication of VA employees and the expeditious use of equipment and new technologies often in space poorly designed for such gear.

Mr. Chairman, several legislative initiatives have been proposed by the President in his budget recommendations. One such proposal would "standardize" the cemetery plot allowance to that of the burial allowance. Of course, this innocent sounding term "standardize" means nothing more than another reduction in benefits. The VFW not only opposes reducing plot allowance eligibility solely to those in receipt of disability compensation or pension, but has adopted a resolution which calls for an increase in the allowance along with expanding the eligibility requirements. It should be kept in mind that the plot allowance is the single monetary benefit available to all veterans who served their country during wartime. It should also be noted that the plot allowance constitutes a significant portion of the operating budget for the various state veteran's cemeteries. Acknowledging the fact that state veteran's cemeteries are an integral component of the veteran's cemetery system, the VA has encouraged states to expand their facilities. Of course, the various states have relied heavily on the $150 burial plot allowance in their expansion endeavors. Should the President's proposal be enacted, the VA would be in the unenviable position of having to renege on a substantial incentive.

Mr. Chairman, the President's FY 88 budget is recommending two legislative proposals which would, in our opinion, severely undermine the very successful VA Home Loan Guaranty Program. One such proposal would increase the "user fee" for a VA guaranteed home loan from 1 percent to 2.5 percent. Inasmuch as we opposed the establishment of an "user fee" and its subsequent increase from one-half of one percent to a full one percent, we are now even more committed in our opposition to this proposed excessive and unwarranted increase. One of the attractive features of the Home Loan Guaranty Program is the provision of not requiring a down payment. Many of today's two-income families can manage a large monthly mortgage payment; however, they have not been able to save enough capital to meet the stiff down payment requirements of commercial lending institutions. As we have stated in the past, we perceive the "user fee" to be, in effect, a down payment without the benefit of equally reducing the amount to be financed. Of course, the veteran may opt to have this fee incorporated into the loan. This avenue, though, is hardly advantageous to the veteran. Assuming $60,000 to be the average VA guaranteed loan, a $1,500 user fee would be assessed. This original $1,500 amount amortized over 30 years at today's current market rate would require the veteran to actually pay around $4,500 or three times the required amount. In addition, there is the very real possibility of lenders requiring increased compensation for the higher risk of lending an amount greater than the value of the property. If a veteran opts to amortize the "user fee" and not render a down payment, the lender would then have to grant a loan for the current value of the property plus the user fee.

Mr. Chairman, the Administration is also proposing to repeal the Veterans Administration's authority to establish a home loan interest rate. We believe departing from this policy would be a serious mistake and detrimental to the veteran's best interest.

At present, the VA only establishes the maximum interest rate a veteran can pay on a guaranteed loan. Even though lenders may charge a lesser rate, cases such as this are rare or nonexistent. We believe, should veterans be forced to negotiate this rate, they will ultimately pay higher rates than they do now with an administered rate. One reason for this anticipated higher interest payment is that the lenders set the rate. Because most home buyers do not shop around for the best lending package, we do not foresee the "competitive factor" holding down the rate. In addition, VA guaranteed loans offer various benefits that are not always available on conventional loans. Assumability, no prepayment penalties and fixed rates are attractive terms that private lenders may consider as justification for assessing higher rates.

Not only would the veteran experience increased expenses with a negotiated rate, we believe the VA would witness increased claim costs should foreclosure proceedings occur. When a VA guaranteed loan goes to foreclosure, the claim is paid with interest based on the mortgage rate. Inasmuch as we expect higher interest rates, should this proposal be enacted, it can only be expected outlays will increase from the Loan Guaranty Revolving Fund. As one can deduce, it would also be very difficult to predict future revolving fund outlays with such a variance of interest rates throughout the nation.

Mr. Chairman, another area of concern is the Administration's recommendation to index compensation benefits to the annual change in the Consumer Price Index.

We believe this action would, in all likelihood, reduce congressional review of the program. In the past, the Congress has been very compassionate and fair in addressing the needs of our nation's service-connected disabled and we foresee no benefit to veterans in substituting an automatic process for the personal attention of this committee and, for that matter, the entire Congress.

Mr. Chairman, in our invitation to appear at this hearing, you also asked for our views on several pieces of pending legislation not associated with the President's FY 88 budget. Two of these bills, S. 6 introduced by you and S. 279 introduced by Senator DeConcini, would provide for the postponement of the Vet Centers program's transition period. The third bill, S. 477 also introduced by the chairman of this distinguished committee, would provide assistance to homeless veterans.

Mr. Chairman, section 4(b) of S. 6 and S. 279 would remove the requirement for transition by September 30, 1988, of the Readjustment Counseling Program from a program primarily of "storefront" services delivery to services delivered primarily through VA health-care facilities. The VFW values the significant role that the Readjustment Counseling Program plays in providing services to disadvantaged veterans. The veterans seen in these Vet Centers have a high percentage of substance abuse and unemployment problems. Further, recent studies have linked these particular difficulties with Vietnam-theater veterans, that is, those veterans who have seen actual combat. Thus, these Vet Centers serve an especially vulnerable and deserving segment of the veteran population. Vet Center usage has been increasing by approximately 1,600 new clients a month. So, it is evident that the need for readjustment counseling is increasing.

In view of the fact that a post-traumatic stress disorder study has yet to be completed, the VFW believes it would be appropriate for the Congress to consider another extension. However, it is also evident that the Vet Centers program was originally intended to be a temporary service. We also believe Congress should take whatever steps are necessary to determine once and for all the fate of the Vet Centers program.

Mr. Chairman, S. 477 would provide assistance to homeless veterans. The VFW views homelessness as one of the most important and compelling issues to face this country in recent years. We commend the intent of your legislation especially as it pertains to the identification of who they are and how many veterans are out there. We do have reservations, however, on the provision granting authority to the Administrator to transfer title of foreclosed properties to various agencies or organizations for the purpose of providing shelter to the homeless. We do not support the concept of one program potentially being undermined to promote another. The VFW acknowledges that some properties are difficult to sell and in fact are a liability; however, we would encourage the VA to not give these properties away but rather strive to get some monetary return however small. We also question whether local zoning ordinances would permit group shelters and to what extent the receiving agency or organization would be liable. We believe the VA could better serve the homeless veteran by doing what they do best--providing medical care, counseling and other rehabilitative programs and services.

This concludes my statement. Attached, you will find resolutions adopted at our most recent National Convention which are pertinent to this hearing. I will be happy to respond to any questions you may have.

Resolution No. 601

THE VA BUDGET

WHEREAS, there are presently more than 28 million living veterans of whom over ten million have reached an age where they required increased health care including long-term care; and

WHEREAS, the Veterans Administration's budget has fallen from 5 1 percent of the Federal budget in outlays in 1975 to an estimated 2.6 percent in 1986; and

WHEREAS, according to the House Veterans' Affairs Committee, "there is evidence that an artificial 'cap' has been placed on the resources available for outpatient treatment, resulting in a denial of treatment to eligible veterans in some cases, and in other cases resulting in an inappropriate admission as an inpatient," an opinion shared by the Veterans of Foreign Wars; and

WHEREAS, it appears that the facilities which the Veterans Administration presently operates, will not accommodate by any measure, the anticipated demand for services over the next 20 years; and

WHEREAS, the Veterans Administration has stated that by the year 2000 a 68 percent increase in hospital beds will be needed with special geriatric evaluation units at each medical center, and that outpatient clinics should be able to support 26 million visits with appropriate prevention and geriatric and specialized services and that 30 Geriatric Research, Education and Clinical Centers (GRECCs) should be established by 1990; and

WHEREAS, veterans who served honorably in our armed forces during periods of war and hostility have rendered a very special service to our great nation and if in need of health care should be timely provided the finest care by the Veterans Administration; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we urge the Congress of the United States to pass a budget and appropriation for the Veterans Administration which will fully fund and maintain the integrity of the benefit and entitlement programs and an enhanced Veterans Administration hospital and medical care system.

Resolution No. 610

QUALITY HEALTH CARE

WHEREAS, Congress on July 21, 1930, established the Veterans Administration health care system and progressively increased its responsibilities to administer veterans' benefits; and

WHEREAS, attempts are being made to drastically alter and reduce veterans health care (long and short term) benefits through budgetary constraints, and efforts to establish by "mainstreaming" veterans away from veterans facilities into the private sector. In addition, savings are being accomplished by barring veterans with nonservice-connected disabilities from eligibility. Savings are also being made by eliminating construction and maintenance of hospitals, domiciliaries and nursing home care units. Reimbursing the VA by third parties and reducing VA staff are other measures being taken; and

WHEREAS, with the demographic increase of the aging veteran population, plus younger veterans, the quality of comprehensive health care in a VA facility is unparalleled, and is more cost effective than other federal and private health care programs; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we support maintaining federal funding for the VA health care system benefits for all veterans, plus increasing VA health care facilities (hospitals, domiciliaries and nursing home care units) to provide long and short term care due to the increasing needs of veterans.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 610

Resolution No. 613

OPPOSITION TO REDUCTION OF THE VA HEALTH CARE PROGRAMS

WHEREAS, proposals have been made to reduce the Veterans Administration Health Care programs by various commissions and study groups such as Heritage Foundation and Grace Commission by transferring the health care of our veterans to the private sector; and

WHEREAS, it is the policy of the Veterans of Foreign Wars of the United States to preserve high quality VA hospitals and medical care for veterans with disabilities incurred in or aggravated by service in the nation's armed forces; and

WHEREAS, the reduction of the VA Hospital System would destroy the VA's special medical care program, specifically designed for the treatment of veterans who have rendered a very special service to our great nation; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we vigorously oppose any plans which would dissolve any part of the VA Health Care Programs.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 619

BENEFICIARY TRAVEL

WHEREAS, beneficiary travel has been eliminated from the Veterans Administration Fiscal Year 1987 budget which is tantamount to abandonment of those severely disabled and ill veterans needing entry into our health care system; and

WHEREAS, it is understood that the Chief Medical Director has authorized that funds be diverted from other patient care areas to provide emergency transportation by ambulance and aircraft to severely disabled veterans and those unable to travel by ordinary surface means; and

WHEREAS, this is only a temporary measure that would impact adversely on other health care programs; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we request Congress to restore a minimum of $100,000,000 to the beneficiary travel account of the FY 87 budget to correct this deficiency.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 619

Resolution No. 621

CONSTRUCTION PROGRAM

WHEREAS, cutbacks in the Veterans Administration Budget for Fiscal Year 1987 (FY-87) severely curtail both major and minor construction within the Department of Medicine and Surgery; and

WHEREAS, a great number of facilities are in need of extensive rehabilitation to refurbish and replace deteriorated basic medical care support equipment; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we urge the Congress to allocate additional funds to the Veterans Administration health care budget necessary to provide replacement of essential equipment and provide modernization of aging facilities.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 621

Resolution No. 622

STAFFING REDUCTION IN VETERANS ADMINISTRATION HOSPITAL SYSTEM

WHEREAS, the present administration proposed a reduction of 8,848 medical personnel within the Veterans Administration's Department of Medicine and Surgery in Fiscal Year 1987, below the level mandated by Congress in Public Law 99-160, the HUD-Independent Agencies Appropriation Act of Fiscal Year 1986; and

WHEREAS, a reduction in health care personnel of this magnitude would seriously impair the Veterans Administration's capability to provide quality health care to the veteran; and

WHEREAS, the already targeted 1,900 personnel reduction under the one percent productivity improvement program proposed for 1986 in itself severely impedes VA medical care programs; and

WHEREAS, the Veterans Administration is already operating with a shortage of medical personnel in excess of 10,000 with productivity at 115 percent and with a 1,900 personnel reduction, productivity would be raised to 117 percent; and

WHEREAS, no hospital in the private sector could ever operate at such a high level of productivity over such a period of time without seriously endangering patient care; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that we oppose any reduction of medical care personnel within the Department of Medicine and Surgery of the Veterans Administration.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 623

BURIAL PLOT ALLOWANCE

WHEREAS, the burial plot allowance was initially enacted into law in 1973 and provided payment of a plot or internment allowance under the conditions set forth in 38 Code of Federal Regulations 3.1600(f); and

WHEREAS, the purpose for enactment of the law and its amendments was to encourage burial in other than National Cemeteries since the number of persons eligible for burial in the National Cemetery System greatly exceeded the number of available burial plots; and

WHEREAS, the reason for enacting the law, providing for burial plot allowance, is becoming more compelling and the cost of expanding state cemeteries is increasing annually and delaying the expansion of state cemeteries to a point where veterans' cemetery plots will be scarce and eventually nonexistent; and

WHEREAS, everything possible should be done to encourage, through grants and other means, development of state veterans' cemeteries in order to provide every veteran the opportunity to be buried in a veterans' cemetery; now, therefore

BE IT RESOLVED, by the 87th National Convention of the Veterans of Foreign Wars of the United States, that legislation be sought to increase the burial plot allowance from $150 to $250 to defray the burial expense of veterans not buried in a National Cemetery; and

BE IT FURTHER RESOLVED, that this resolution to increase the plot allowance be applied to all veterans currently eligible to a plot allowance, notwithstanding the President's Budgetary Recommendation that payment of the allowance be restricted to only those in receipt of compensation or pension, or who died while hospitalized at VA expense or in transit to or from a hospital at VA expense, thus eliminating those veterans who have never applied for VA benefits during their lifetime.

Adopted by the 87th National Convention of the Veterans of Foreign Wars of the United States, held in Minneapolis, Minnesota, August 15-22, 1986.

Resolution No. 623

PVA

PARALYZED VETERANS
OF AMERICA

Forty Years of Service
1947–1987

STATEMENT
OF
R. JACK POWELL, EXECUTIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE PRESIDENT'S PROPOSED FISCAL YEAR 1988
VETERANS ADMINISTRATION BUDGET,
VET CENTERS (S.6 Sec.4(b) AND S.279)
AND
HOMELESS VETERANS (S.477)
February 19, 1987

Mr. Chairman and Members of the Committee, I am R. Jack Powell, Executive Director of Paralyzed Veterans of America, and on behalf of the members of Paralyzed Veterans of America, a Congressionally chartered veterans' service organization, I thank you for affording me the invitation and the privileged opportunity to appear here today, during this all-important first session of the 100th Congress.

Let there be no doubt that PVA appreciates the Committee's efforts to conduct pertinent hearings and for the opportunity to express our views and concerns regarding these important issues, including the Administration's proposed Fiscal Year 1988 budget for the Veterans Administration. The entire PVA membership is comprised of men and women who have served in the military and are all veterans who have experienced catastrophic spinal cord injury or dysfunction. It is on behalf of these veterans that we present our views today.

Mr. Chairman, last year Congress, mindfully and with objectivity, rightfully rejected the Administration's FY'87 budget proposal for the VA. And, this year, "there they go again" (the Administration), as the FY'88 budget proposal reveals a continued disregard and concerted effort to cut the federal budget deficit in an arbitrary manner. For example, there is the proposal to seek an immediate rescission of $75 million from VA medical care appropriated in the VA's FY'87 budget. Additionally, the Administration attempts to portray the FY'88 proposal as one of providing increased funding for veterans, when under examination this premise is a facade, a cruel deception. It is riddled not only with the continuing attempt to reduce staffing and funding for VA programs, but also in effect, it undermines the responsible authority of Congress to authorize and provide appropriations. I will further discuss my viewpoint on this aspect throughout our testimony.

It was reported in 1986 that already over 35,000 veterans a month were being turned away from the VA. The rescission is an effort to add fuel to the flame. Mr. Chairman, in no uncertain terms, veterans are, and well they should be, offended by the Administration's FY'88 VA budget proposal. PVA objects to the relentless attacks on veterans programs, and in particular to the budget proposal as submitted, for it is nothing less than a tenuous facade limited to less than a current services budget. This budget proposal is more than an effort to curtail federal spending and reduce the deficit, it is an overt effort to eliminate veterans' benefits and preclude veterans' access to needed services, particularly in the area of medical care. In reality this has been the case for too many years, recognizable as far back as 1981.

Mr. Chairman, I am pleased to inform you that several of the national veterans' service organizations have, indeed, joined forces with the purpose of providing the Congress and this Committee a unified statement and suggested independent budget, free of political forces, conceived with the purpose of establishing a realistic medical care budget for the VA. We in PVA believe you will find that the independent budget is palatable, a document that you can accept and support, and a document that you can endorse and which can provide guidance to the entire Congress. Four major veterans' organizations, AMVETS, DAV, VFW and PVA, mutually worked together to provide this timely and necessary response to the budget process. This independent budget represents PVA's position on funding for veterans' health care for Fiscal Year 1988 and we appreciate the fact that you are providing a forum where we can share this position. The independent budget to be presented to this Committee, will address at length the concerns regarding the budgets for VA health care, medical and prosthetics research programs and other various aspects of VA funding to meet the demands of veterans, both today and in the future.

Additionally, in January 1987, PVA in cooperation with the American Health Planning Association, released the completed study titled, "Veterans' Health Care: Actions and Interactions." This project was motivated by our deep concern for the health care provided to the men and women who serve, have and will serve in our nation's armed forces, both in times of war and peace and to whom we all owe our deepest gratitude. Briefings of the study have been presented in the Nation's Capital with four additional regional briefings being conducted across the nation. These documents are meant to support a realistic approach and understanding by all as to what the needs and necessary programs for veterans and their dependents actually are. These efforts can only reinforce the commitment of Congress to honor its obligations to this nation's veterans.

As veterans, and as a part of the whole, we have witnessed that the Congress has kept its commitment to care for our nation's veterans since the days of Valley Forge through Vietnam. However, there are those who do not share in the responsibility. The Administration must be reminded that the costs attributed to war and the defense of freedom are high.

The proposed budget of $27.6 billion dollars purports to be an increase of $548 million above the current FY'87 budget. However, just as it was proposed last year, when examining the FY'88 VA budget request, we see it contains an excess of $1 billion in program cuts for benefits and services for veterans. This goal would be attained by virtue of OMB's effort to decrease the authority of Congress to finalize the appropriations for several programs. The most pronounced is the Administration's legislative proposals to attach cost of living increases for disability compensation and Dependency and Indemnity Compensation to the Consumer Price Index, which is unacceptable to PVA.

Included in the President's Fiscal Year 1988 Budget are a package of specific legislative proposals addressing changes to certain veterans' programs. I will address each proposal individually.

1) The Administration's Budget Proposal includes a provision to rescind $75 million dollars already appropriated for FY 1987 by eliminating funding for the care of higher income, nonservice-connected veterans. Further, this budget proposes reductions of approximately 4,000 FTEE's and approximately $220 million in associated funding for fiscal year 1988.

PVA soundly rejects these budget reductions and we will strongly oppose any proposal designed to eliminate VA hospital and nursing home care to any category of eligible veterans. PVA believes this proposal is an attempt to usurp Congressional authority and blatantly ignores the Congressional intent of P.L. 99-272, the "Consolidated Omnibus Budget Reconciliation Act of 1985." The law established three categories of veterans' health care eligibility, through a provision known as the "means test." This law specifically provides that veterans who have nonservice-connected disabilities and whose incomes exceed certain specified amounts, may receive hospital or nursing home care on a space- available basis if they agree to make a modest co-payment.

Mr. Chairman, as you are so acutely aware, prior to P.L. 99-272, all eligible veterans received VA care as a result of service to our nation and were not required to pay for it. PVA believes that the "means test" was a desperate attempt to help control burgeoning federal budget deficits, while at the same time maintaining the nation's commitment to the men and women who served. This is the intention of today's U.S. Congress. The President's proposal simply is not fair and is obviously inconsistent with the intent of the legislation promulgated in the 99th Congress.

The President's proposal is designed to reduce the size of the VA's health care system through the elimination of funding for category C veterans, PVA will not support this. In addition, PVA believes that the aforementioned budget reductions and particularly FTEE reductions, if approved, would impact negatively on the remaining categories of eligible veterans. At a December 10, 1986, meeting between the various veterans' service organizations and the Chief Medical Director, PVA was informed that with regard to FY 1987 FTEE levels, Department of Medicine & Surgery was already looking at a shortfall of approximately 200 FTEE per region with urban areas facing the most severe shortages. Mr. Chairman, health care personnel shortages certainly affect the quality of care received by all eligible veterans.

Even at current staffing levels, the VA is going to be very hard pressed to address the specific and emerging special program areas of: Services to aging veterans; Vietnam veterans; veterans exposed to Agent Orange and Ionizing Radiation; former Prisoners of War; and of particular concern to us, certain VAMC's may not be able to provide the highly specialized care and rehabilitative services to those veterans with spinal cord injury or disease. The President's proposal would serve to add more burden to an already critical situation in the VA. Hence, all veterans receiving VA care are negatively affected. It is grossly apparent that this particular budget proposal was drafted with only random budget slashing as its goal and without regard to Congressional intent and ignorant of the nation's moral obligation to its veterans.

Mr. Chairman, this Committee has already formally expressed its outrage with this provision through the introduction by Senator Frank Murkowski and unanimous co-sponsorship by all Members of S. Con. Res. 7. Similar legislation has been introduced in the House, H.J. Res. 110, by Representative Thomas J. Ridge. PVA applauds this Committee and all Members of Congress whose efforts are obviously on behalf of this Nation's veterans.

2) The Administration's budget provides for a 3.5% increase in service-connected disability compensation benefits and proposes that the annual cost-of-living adjustment be indexed to the annual change in the consumer price index and therefore adjusted automatically. The COLA now requires annual Congressional action, a process which PVA believes ensures Congressional control and results in greater flexibility and fairness in a fluctuating economic climate. Mr. Chairman, and Members of the Committee, I respectfully call to your attention yet another OMB attempt to bypass Congressional authority.

3) The Administration requested that all benefits under the New GI Bill be transferred for payment by the Department of Defense, thereby making it a permanent retention and recruitment program. Mr. Chairman and Committee Members, we all know that, historically, the GI Bill was meant as a readjustment benefit, rightfully paid and administered by the VA. We see no

reason to change this. PVA also opposes the transfer of funding responsibility because we believe that separating the administration of a program from its funding source is inefficient management. Furthermore, this proposal will not result in cost-savings since it only represents a funding shift. The Administration may have already begun to see the light on this one as witnessed in the most recent State of the Union address.

4) Another provision in the Administration's budget, if enacted, will increase the VA Home Loan Guaranty Program "user's fee" from one percent to 2.5%, effective June 1, 1987. It is estimated that the proposal would amount to an average increase of $900 in the fee paid by a typical veteran home buyer. PVA has consistently opposed similar proposals in the past and remains strongly opposed now. Congress, too, has rejected these proposals in the past. We believe that an increase in the user's fee would have a serious detrimental effect on the ability of veterans to obtain guaranteed loans, and thereby discourage veteran's home ownership. Any attempt to dismantle the VA's Home Loan Guaranty Program is a serious disservice to this nation's veterans. Without a doubt, the VA Home Loan Program, having assisted millions of veterans in obtaining suitable, affordable housing, has been one of the most successful government programs in this nation's history. This program has been a sound investment in America, providing stability and expanding the tax base of nearly every community in our country.

5) The Administration proposes a $22 million reduction in burial benefits by standardizing the eligibility criterion of the plot allowance with the burial allowance. In effect, burial benefits would only be provided to service-connected deaths and veterans receiving either compensation or

pension payments at the time of death. Once again, the Administration is attempting to deny a category of eligible veterans a promised benefit. By limiting the plot allowance to the above veterans, the Administration assumes responsibility to only those service-connected veterans or nonservice-connected veterans in receipt of pension who are therefore already designated as economic hardships. Even this premise is faulty, because many nonservice-connected veterans over the age of 65, who are eligible for VA pension, opt instead for participation in other government programs such as Social Security. Veterans receiving Social Security payments may be equally as in need of that $150 plot allowance as the nonservice-connected pension recipient. The Administration's efforts are misguided if they are attempting to identify those veterans "in need" of the benefit.

6) The 1988 budget contains $6 million and nine FTEE to reactivate the Health Professional Scholarship Program to support 211-one year awards and 84-two year awards to nursing and physical therapy students. PVA applauds the Administration's efforts to ease the critical personnel shortages in these areas by providing this recruitment technique. It is imperative that the VA have the ability and funding necessary to recruit and retain high quality health care professionals. It is however incongruent that the Administration while reinstituting this important program would at the same time propose reducing actual FTEE levels in the Department of Medicine & Surgery.

7) PVA wishes to express its deep concern over the Administration's proposal to cut 296 FTEE from the Department of Veterans Benefits. Included within the aggregate of the proposed personnel increases and decreases for the

Department are a 210 FTEE reduction from compensation, pension and education adjudication staff, 45 FTEE in support services, 16 FTEE from Vocational Rehabilitation, and 95 FTEE from Veterans Services.

The budget justifies these cuts citing declining workload caused by decreased participation in the Vietnam Era G.I. Bill and on-going "efficiencies" in the claims adjudication process. On analysis, we find these arguments shortsighted. Any stated decrease in workload within the Department must be measured not only by the number of veterans' claims pending, but also by the complexity of those cases being adjudicated on a day-to-day basis by an already overworked and overtaxed DVB staff.

Staffing levels for the Department of Veterans Benefits have been under severe attack for the past several years. Most VA Regional offices are struggling right now just to meet basic timeliness and quality-of-service standards. Any further erosion at this time, we feel, could seriously degrade the quality of ongoing adjudication services provided by the VA. Adjudication, veterans services and support staff are on the front line of benefit delivery within the VA. We will strongly support any effort made by this Committee and the Congress to restore funding for these key personnel.

Last year the President proclaimed November 11, 1986, as "Veterans Day." The following excerpts to quote the President, he said, "Veterans Day gives all Americans a special opportunity to pay tribute to all those men and women who, throughout our history, have left their homes and loved ones to serve their country...From Valley Forge to Vietnam, through war and peace, valiant patriotic Americans have answered the call, serving with honor and fidelity

...On this special day...they are indeed worthy of the solemn tribute of a grateful nation..." PVA would comment, that indeed veterans have served with honor and fidelity, only to look the enemy in the eye, the veterans have never turned their backs on this country and, while the veteran has served valiantly from the days of Valley Forge through Vietnam and since, we do not understand but, if we must, we will, year after year, continue to fight the battle of the Veterans Administration's insufficient budget request.

Finally Mr. Chairman, concerning the budget, I must address what PVA perceives as a not so subtle attack on the very premise of veterans' benefits in the Administration budget proposal. Veterans' benefits and programs are not addressed as a unique, national obligation but are encompassed in the broader areas of revenue transfer and federal health care. This demonstrates a blatant disregard of the service rendered by this nation's veterans and signals an overt attempt to enmesh the Veterans Administration and its programs into the larger systems of welfare and support services provided by the federal government. PVA rejects such a shift of government philosophy and requests that you, this Committee and all of Congress, continue to recognize and support veterans' benefits and programs as earned by the men and women who have served the nation and that these benefits have been prepaid by these veterans.

Vet Centers - S.6 Sec.4(b) and S.279

PVA supports Section 4(b) of S.6, introduced by you, Mr. Chairman, and S.279, introduced by Senator DeConcini. These bills would amend Section 612 A(g) of Title 38, United States Code, thereby postponing the transition period for the VA's Vet Center program. More specifically, this legislation would provide that if the VA Administrator does not have the results of the comprehensive study concerning Vietnam Veterans and post-traumatic stress disorder (PTSD) and other problems, the start of the transition period will be delayed for 1 year. Also, both bills for clarification of transition, list Vet Centers as facilities operated by the VA which are situated apart from VA general health-care facilities, and insert in lieu thereof "Vet Centers to a program providing readjustment counseling services primarily through VA general health-care facilities."

The comprehensive study, together with timely reports, was designed to enable Congress to make informed decisions about the future of the Vet Center Program. Since 1979, the VA has provided counseling for more than 500,000 veterans and family members in Vet Centers. These centers provide referral service as well as counseling for employment, marital, stress-related and other readjustment problems.

PVA believes, as do Members of this Committee as reflected by the introduction of such legislation, that without the Administrator having the necessary documentation relevant to the Vietnam-era veterans, any planning or transition should be delayed. We need to make certain that there is no change in the status or location of our Vet Centers until the VA and Congress has had an opportunity to review the study and needs assessment mandated by Congress.

Homeless Veterans - S.477

And lastly, Mr. Chairman, I would like to comment on a bill introduced by you, S.477, the proposed "Homeless Veterans' Assistance Act of 1987." This bill contains numerous provisions for our Nation's homeless veteran population, and PVA will address just a few provisions that we believe are of significant importance.

Most experts today agree that the major causes of homelessness are: deinstitutionalization/mental illness; alcohol and drug abuse; and economic and personal crises, such as loss of employment, divorce and lack of low-cost housing. But, while most experts agree on the causes, almost all disagree on the number of homeless veterans that exist today. As an example, during a hearing in September 1986, then Representative Tom Daschle, Chairman of the Subcommittee on Education, Training and Employment, of the House Committee on Veterans' Affairs, indicated that government statistics show an estimated 250 to 350 thousand people are homeless, and at least one-third are veterans. In that same hearing the VA representative stated that there are possibly 250,000 to 300,000 homeless veterans.

According to American Legion estimates, 40 percent of our homeless citizens are veterans. Mr. Mitch Snyder, associated with the Community for Creative Non-Violence and a local advocate for our Nation's homeless, stated that more than half of the homeless individuals are veterans. And lastly, the Ranking Minority Member of this Committee, Senator Frank Murkowski, who on January 29, 1987, during his introduction of Amendment No.9, which provides for 5 million dollars in funding for chronically mentally ill veterans, stated:

> I do not think there are accurate statistics to reflect the actual numbers of homeless veterans. However, estimates range between 250,000 and 3 million homeless individuals.

To the first sentence of Senator Murkowski's statement PVA agrees. Depending on what statistics you use, the Nation's homeless veteran population could range from around 100,000 veterans to over 800,000. With that in mind Mr. Chairman, PVA supports Section 5 of your bill, and further agrees that a report or comprehensive study is crucial if the VA or any other agency is to adequately address the true problems, with solutions, for our Nation's homeless veterans.

We strongly support the language contained within this section of the bill that states the Administrator, in coordination with the secretaries of Labor, Defense, Health and Human Services, and Housing and Urban Development, be mandated to submit to the Veterans' Affairs Committee in Congress, a comprehensive report on the extent to which veterans are represented in the population of homeless individuals.

Not only should this study include the number of veterans, as indicated in your bill, but as importantly, it must include other critical information, such as period of service; type of discharge; and income, if we are to adequately recognize homeless veterans and their eligibility within the VA's system, or other agencies within society.

In a House Veterans' Affairs Subcommittee hearing held late last year, some interesting and most pertinent information was revealed: 1) The Federal Task Force on the Homeless has identified over 70 federal programs that can be used to help the homeless. 2) This same Task Force in a summary on the Homeless, list under Agency and Program, VA Outreach, 479 facilities. 3) The VA currently has approximately 18 programs that are specifically for veterans, including homeless veterans. 4) As late as December of 1985, over 73 VA facilities reported staff members serving in groups or task forces which were addressing the needs of the homeless in their communities. 5) And lastly, the "National Volunteer Clearinghouse on the Homeless," a project of the Community for Creative Non-Violence lists over six thousand shelters in the U.S. for the homeless.

It is PVA's firm belief that from just some of the information brought out here today, that there currently exists, programs within various government entities that are assisting our Nation's homeless population, including veterans. And, that with better coordination between the various groups and programs, and a renewed emphasis in outreach, more of our Nation's homeless can and will be served.

As alluded to earlier in our testimony, we testified to the importance of a delay in any transition of the current Vet Center program back into general VA health care facilities. There currently exists within the VA's system, located throughout the U.S., 189 Vet Centers that could possibly be utilized for the outreach of homeless veterans.

Although PVA is not opposed to Sections 2 and 3 of your bill, which provides "Assistance in Providing Shelter" and a "Pilot Program to Assist Homeless Veterans," we do have some reservations about both. The first concern is in reference to the VA's Home Loan Guaranty Program.

The VA currently owns approximately 21,000 single family dwellings which were originally acquired as a result of foreclosures of VA-guaranteed loans. The income derived from the sales of these properties is the primary source of funds needed to pay the obligations and operating expenses of the Loan Guaranty Program. Any decision to use VA-owned properties for sheltering homeless veterans could delay the sales of those properties, perhaps indefinitely. And, to the extent that sales are delayed, Congress would possibly need to appropriate larger amounts for the Loan Guaranty Program. The Administration has already again this year proposed legislation to raise the user fee within the VA's Home Loan Program recognizing the need to increase revenue within the program.

Another point to consider, whether using VA's foreclosed properties or underutilized facilities within the VA's jurisdiction, the characteristics of VA properties, would make them considerably less suitable for sheltering homeless persons than other kinds of dwellings. Homeless, unemployed persons have a variety of needs besides shelter, e.g., food, transportation and medical care. In reference to another provision contained within Section 3 of the bill, which encourages VA employees to assist on a volunteer basis, homeless veterans and their families in acquiring shelter, food, and health care, we must point out that there is a limitation on VA resources. The number of Veterans' Benefits counselors in the VA Regional Offices have declined every year for the past 7 years; in addition, there is normally only one VA Regional Office in each State. Some of the larger states have two VARO's, and one state has three. This will limit the ability of whatever VA personnel resources are available to actually get out and work one-on-one with the homeless veteran, particularly if the homeless veteran is not in the same local area as the Regional office.

And one last point concerning the VA's Home Loan Guaranty Program that we must consider from the veteran's standpoint is that at the time the property is acquired by the VA, it is still occupied by the former veteran owner. The possibility exists that the veteran may become homeless as a result of the VA's need to have the property vacated for sale.

The VA gives every reasonable and humane consideration to avoid homelessness for those who have lost their homes through foreclosure. The VA takes into account the physical condition of the veteran and/or the immediate family members who occupy a property, the effects of a dispossessory action on the family at an inappropriate time during the school year, the seasons during which the veteran will be requested to vacate, and the likelihood of a repurchase by the veteran if his/her financial situation has improved since the foreclosure action.

Concerning the issue of leasing, would the VA undertake the traditional role of a landlord that such a program could require? In addition to possibly having to provide heat, light and water, the VA could be tasked with a variety of maintenance problems, building code compliance problems, potential waste and vandalism by occupants, and possible lengthy eviction proceedings. Any of these problems could require the VA to expend substantial, unanticipated sums from the Loan Guaranty Revolving Fund for purposes not related to the operations of the Loan Guaranty Program, thereby placing additional administrative burdens on existing regional office staffs already handling record numbers of veterans' applications due to the low interest rate.

To change or refocus a program that has been one of the most successful housing programs in this Nation's history, assisting over 11 million veterans and their families, we believe is unwise. Although PVA agrees that the plight of the homeless veteran is a serious condition, we believe that there currently exist programs within various government entities that are assisting our Nation's homeless population, including veterans, and with better coordination and a renewed emphasis in outreach more of our Nation's homeless population will be served.

In conclusion, Mr. Chairman, per your invitation, PVA is scheduled to present on February 25, 1987, our Annual Testimony, in a Joint Hearing of the House and Senate Committees on Veterans' Affairs. At that time our testimony will include various other concerns and recommendations. These recommendations are too lengthy for presentation here today.

We appreciate the fact that this Committee has and will provide careful examination of the proposed funding for the VA and the needed scrutiny of the VA's programs to provide the necessary appropriations which you have done in the past. Further, we trust and continue to believe that your commitment to the veterans mirrors the intent of Congress.

Mr. Chairman, that concludes my statement. Thank you and the Members of the Committee for your extremely deliberate and thoughtful considerations of this issue. I will attempt to answer any questions that I can.

MEETING THE CHALLENGE
An Independent Health Care Budget for Veterans

STATEMENT OF
DR. DONALD CUSTIS
BEFORE THE
SENATE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
AN "INDEPENDENT BUGET" FOR VETERANS' MEDICAL CARE
DEVELOPED BY
AMVETS, DISABLED AMERICAN VETERANS
PARALYZED VETERANS OF AMERICA
VETERANS OF FOREIGN WARS
FEBRUARY 18, 1987

This is a veterans' budget for veterans. The AMVETS, Disabled American Veterans, the Paralyzed Veterans of America and the Veterans of Foreign Wars have joined in an unprecedented common effort to develop and propose to the Congress an independent FY 1988 budget for veterans' health care. Ours is a proactive effort to place on the record the perspective of the Congressionally-chartered consumer representatives of our nation's veterans.

The strategy. Several forces shape our proposal (Figure I). For one, the workload of the VA health care system will increase because of

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newly-legislated eligibility changes, the aging of the veteran population, the growing number of uninsured and medically indigent Americans, and the decreasing willingness of the private sector to provide uncompensated care. Also, the dollars required to maintain the VA system as it stands, with no increase in treatment capacity, will increase substantially over time due to inflation, routine payroll related increases and commitment made to activate facilities under construction (Figure 2). In addition, this is a period of fiscal austerity with unprecedented federal budget deficits. The confluence of these forces requires the VA health care system to meet the challenge of a growing workload innovatively, optimizing resource use while also forging ahead in its missions in research, education of health care professionals, and provision of backup capacity to DOD in the event of military action.

A key feature of our strategy is to expand outpatient care in order to treat illness at the earliest point in time and to reduce the need for for more costly inpatient care. We propose a similar strategy for long-term care, where our emphasis on non-institutional modalities of care calls for expansion of innovative treatment methods such as hospital-based home care, geriatric evaluation units, and community residential care. Implementation of this general strategy now will result in considerable savings for the VA system over the long run.

Our inpatient strategy takes advantage of reductions in hospital length of stay by converting unneeded acute care beds to extended care use. However, we recommend maintaining most acute care staffing because an increase in staff per occupied bed is necessary to achieve the shorter stays. Extended care staff must be increased, and we recommend an emphasis on mid-level practitioners such as physician assistants and nurse practitioners. As well, it will be necessary to increase nursing home capacity with both new VA nursing homes and an expansion of the subsidized State nursing home program and the contract community nursing home program.

Current services. Figure 3 shows the funding we recommend in the five appropriation accounts into which the VA health care budget is divided. Figures 4 and 5 indicate most of the dollar increases we propose are not for program expansions, but are required merely to keep even with rising costs. Enacted appropriations for VA health care for FY 1987 are $9,686 million, but over $300 million more in supplemental appropriations are required to maintain the envisaged level of VA health care activity throughout FY 1987. Over 90 percent of this supplemental amount is needed to fully fund the 3 percent federal employee pay raise of January 1, 1987, and the increased contribution required by the Federal Employees' Retirement System (FERS). The pay raise and FERS increase cost DM&S money, but do not bring it any added resources. If supplemental funds to cover these costs are not appropriated, DM&S will have to cut employment below the level Congress envisaged when passing the basic appropriations for FY 1987. That translates into reduced services. Nonpersonnel accounts cannot realistically absorb $300 million in cuts. These accounts are already severely strained by the $72 million that had to be absorbed in FY 1987 in order to maintain staffing and beneficiary travel funds. The strain shows in the $500 million plus backlog of needed equipment from which DM&S suffers.

As Figure 4 indicates, the FY 1988 current services level is, in turn, more than $500 million above the FY 1987 level, with most of the $500 million required for payroll-related increases and inflation. It should be noted that the payroll-related increases are predominantly for a further increase in required FERS contributions. Nothing is included for an FY 1988 pay increase, for we have felt we should not singlehandedly overturn the budget formulation rule that out-year pay increases are not included in the budget.

The FY 1988 current services level includes $205 million for activation of facilities whose construction will be completed in FY 1988. This covers both equipment and an increase of approximately 2,300 FTEE in personnel. Activations are included in current services because the alternative to equipping and staffing facilities -- namely, leaving newly-constructed or newly-renovated facilities empty and unused -- is absurd, particularly in a system suffering from the aging of so many of its facilities. Activations do provide some increase in treatment capacity -- about ½ of 1 percent for both inpatient and outpatient care, judging from recent years -- and we have taken this into account in sizing the initiatives we propose.

The primary point to remember about current services is that it will take an increase of more than $800 million over enacted appropriations for FY 1987 in order to provide in FY 1988 the level of services envisaged when these appropriations were made for FY 1987 (see Figure 5). This increase of over $800 million is more than twice the amount we propose for initiatives. Thus, the main cause of spending increases in our independent budget is keeping even with rising costs, not expansion of services.

In short, the budget we present to you today is very much a fiscally conservative one, honed down to the bare necessities for meeting the VA's role now and making some modest commitments to prepare the VA for the immediate future.

Initiatives. As Figures 4 and 6 show, the initiatives we recommend total just over $400 million. Almost $370 million of the cost of the initiatives is in the Medical Care appropriation, which provides 97 percent of VA health care funds. Our initiatives in Medical Care are sized according to the growth to be expected solely from the aging of the veteran population, without allowance for an increase in demand from the approximately 10 million "Category A" veterans newly-entitled to VA inpatient hospital care under Public Law 99-272. VA data to date does not show a large expansion in demand from this group. Although we suspect problems in the data, we have been fiscally conservative and thus have not built in an increase from this source. However, as these veterans learn of their entitlement more of them will seek VA care. Similarly, as public programs and private hospitals learn of the entitlement, they will send more and more uninsured veterans to the VA. Thus we call upon the Congress to be ready to appropriate additional funds if additional demand, due to the Public Law 99-272 expansion of entitlement, does occur in FY 1987 or FY 1988.

The major initiatives (see Figures 4, 7 and 8) that we propose in the medical care appropriation are:

- ° Expansion of extended care both in innovative programs and in nursing homes at a net cost of $108 million and an addition of 360 FTEE. Although we are shifting the balance of extended care toward innovative programs, most of the cost increase, nonetheless, is for nursing homes. We note that many states have a freeze on private nursing home construction and are disinclined to expand or establish state veterans' nursing homes. Thus, in the long term, much of the VA's expansion in nursing home census must come from the VA's own nursing homes. We recommend construction funding for 12 VA nursing homes this year to provide some of the needed expansion in capacity.

- ° Provision of 400 thousand additional outpatient visits, an increase of just over 2 percent, at a cost of $30 million and with an increase of 600 FTEE.

- ° An increase of approximately 2 percent in the number of inpatients treated at a cost of $75 million and with a staffing increase of almost 1900 FTEE.

- ° An increase of $11 million in funds for continuing education to keep VA staff up-to-date with the many and rapid changes that take place in health care. These funds have been severely eroded in the last decade while the rapid changes in care continue.

° An increase of 200 FTE and $9 million in traineeships to augment VA house staff and VA recruiting ability in specialties in which the VA is plagued by particularly severe staff shortages.

° $50 million for ADP equipment as part of a multi-year effort to bring the VA health care system up to date in data processing after years of starvation. We caution against plans that we understand the VA has to change the nature of the computer system in mid-stream. We fear that a major change made now may lead to a breakdown in the ADP development program.

° $90 million to restore funds for reimbursements to patients entitled to payment of their costs of travel to and from VA medical centers and for the costs of transferring patients between VA health care facilities.

Our proposed initiatives in Research, as shown in Figures 4 and 9 include:

° Augmentation of rehabilitation research by $3 million to a total of $20 million in FY 1988. Rehabilitation research is a field in which the VA has a national leadership role and a special obligation to the millions of veterans with disabilities, many of them service-connected.

° An addition of $2 million to health services research. Health services research is directed at improving the effectiveness and efficiency of the health care system. the $11 million total recommended is about 1/10 of one percent of the VA health budget, a very small sum in this era of tight budgets when inefficiency is least tolerable.

- ° An increase of $4.6 million in medical research. Most VA medical research is carried on by clinicians and thus has a high relevance to the particular needs of veterans and VA patients.

Staffing at the Washington headquarters of the VA health care system has been cut by almost one-third in recent years. We are concerned that this leaves inadequate staff for sound management, particularly in an era when waste due to mismanagement can least be tolerated. Thus, we recommend a study of Central Office staffing and organization. In the Medical Care and Miscellaneous Operating Expenses (MAMOE) appropriation, we also recommend (as shown in Figures 4 and 10):

- ° Reactivation of the health professionals scholarship program in nursing and other shortage professions with $6 million in FY 1988. The program has provided an important assist in dealing with the VA's nursing shortage problem.

- ° Funding of a new, legislatively-mandated quality assurance system that will focus on patient care outcomes and quantitative data.

Finally, we recommend an increase of over 40 percent in grants to states for construction of extended care facilities. The state-sponsored veterans' nursing homes that these grants help to build provide care to veterans at a very low cost to the VA. A major component of our extended care strategy is to take full advantage of states' willingness to expand the network of these homes. The increase in funds recommended for FY 1988 is based upon "pre-applications" already recieved from states.

We recommend these initiatives as the minimum necessary for the VA to contain costs, to improve its efficiency, to continue to play its role in meeting the increasing care needs of those who served their nation in the armed forces, to maintain quality of care, and to fulfill its missions in research, health professionals training, and DOD backup.

THE ISSUES

- AGING VETERAN
- BUDGET FORMULATION PRACTICES
- HEALTH CARE SYSTEMS INTERACTIONS
- ADVANCES IN TECHNOLOGY

Figure 1

THE UNCONTROLLED ENVIRONMENT

- PAY INCREASES
- FEDERAL EMPLOYEES RETIREMENT SYSTEM
- INFLATION
- ACTIVATIONS
- TECHNOLOGY ADVANCEMENT

MEDICAL APPROPRIATIONS AND FUNDS

SUMMARY OF APPROPRIATION REQUIREMENTS
(dollars in thousands)

Appropriation Account	1987 Enacted Appropriation	1987 Current Services	1988 Current Services	1988 Recommendation	Increase(+) Decrease(-) from '87 appropriation
Medical Care					
obligations		$9,780,817	$10,315,971	$10,684,455	
minus reimbursement		60,000	60,000	60,000	
appropriation	$9,411,817**	9,720,817	10,255,971	10,624,455	+ 1,212,638
Medical and Prosthetic Research					
obligations	189,915*	201,915	212,124	220,674	
minus reimbursement		5,200	5,200	5,200	
appropriation		196,715	206,924	215,474	+ 25,559
Medical Administration and Miscellaneous Operating Expenses:					
Medical administration	41,194	42,426	42,624	43,974	+ 1548
Postgraduate and inservice training	...	...	...	...	
Health professional scholarship	...	...	...	6,000	
Subtotal	41,194	42,426	42,624	49,974	+ 8,780
Grants for Construction of State Extended Care Facilities	42,400	42,400	42,400	60,000	+ 17,600
Grants to the Republic of the Philippines	500	500	500	500	-0-
Total	$ 9,685,826	$10,002,858	$10,548,419	$10,950,403	+ 1,264,577

**Includes 20 million DOD transfer.

Figure 3

RECOMMENDED DEPARTMENT OF MEDICINE AND SURGERY BUDGET
(dollars in thousand)

FY 1987	Enacted Appropriations*		$ 9,685,826
FY 1987	Estimated Obligations (+$65,200 Reimbursements)		9,751,026
FY 1987	Supplemental Funds Required		
	Payroll Increases		132,524
	Health Benefits		27,641
	Federal Retirement System		156,867
FY 1987	Current Services Level		10,068,058
FY 1988	Payroll Related Increases		348,307
	Inflation		182,650
	Facility Activations		205,000
	Decreases in Capital Investment		(199,000)
	Other		8,604
FY 1988	Current Services Level		10,613,619
FY 1988	Initiatives		
	Medical Care		
	Extended Care	108,000	
	Inpatient Hospital Care	75,602	
	Outpatient Care	30,000	
	Continuing Education	11,200	
	Traineeships	9,000	
	ADP Equipment	50,000	
	Beneficiary Travel	30,000	
	Interfacility Transport	60,000	
	Other (net)	(5,318)	
	Total Medical Care		368,484
	Medical and Prosthetic Research		
	Rehabilitation Research	3,000	
	Health Services Research	2,000	
	Medical Research	4,600	
	Other (net)	(1,050)	
	Total Medical and Prosthetic Research		8,550
	MAMOE		
	Management Study	150	
	Health Professional Scholarship	6,000	
	Quality Assurance System	1,200	
	Total MAMOE		7,350
	Grants for Construction of State Extended Care Facilities		17,600
	Reimbursements		(65,200)
FY 1988	Recommended Appropriation		$10,950,403

*Excludes $10.4 million from HHS transfer.

Figure 4

RECOMMENDED DEPARTMENT OF MEDICINE AND SURGERY BUDGET

(DOLLARS IN THOUSANDS)

● FY 1987 ENACTED APPROPRIATION*	$ 9,685,826
● FUNDS TO MAINTAIN 1987 SERVICES	+ 862,593
● INITIATIVES	+ 401,984
● TOTAL FY 1988 RECOMMENDED APPROPRIATION	$10,950,403

*EXCLUDES HHS TRANSFER OF $10.4 MILLION

Figure 5

MEDICAL CARE
(DOLLARS IN THOUSANDS)

1987	APPROPRIATION	9,411,817*
	REIMBURSEMENTS	60,000
	ADDITIONS REQUIRED	309,000
1987	CURRENT SERVICES LEVEL	9,780,817
	PAYROLL INCREASE	339,000
	OTHER UNCONTROLLABLES AND MISCELLANEOUS	196,154
1988	CURRENT SERVICES LEVEL	10,315,971
	INITIATIVES	+368,484
	REIMBURSEMENTS	(60,000)
1988	RECOMMENDED APPROPRIATION	10,624,455

*EXCLUDES $ 10.4 MIL FOR IHS TRANSFER

Figure 6

MAJOR PROGRAM TARGETS

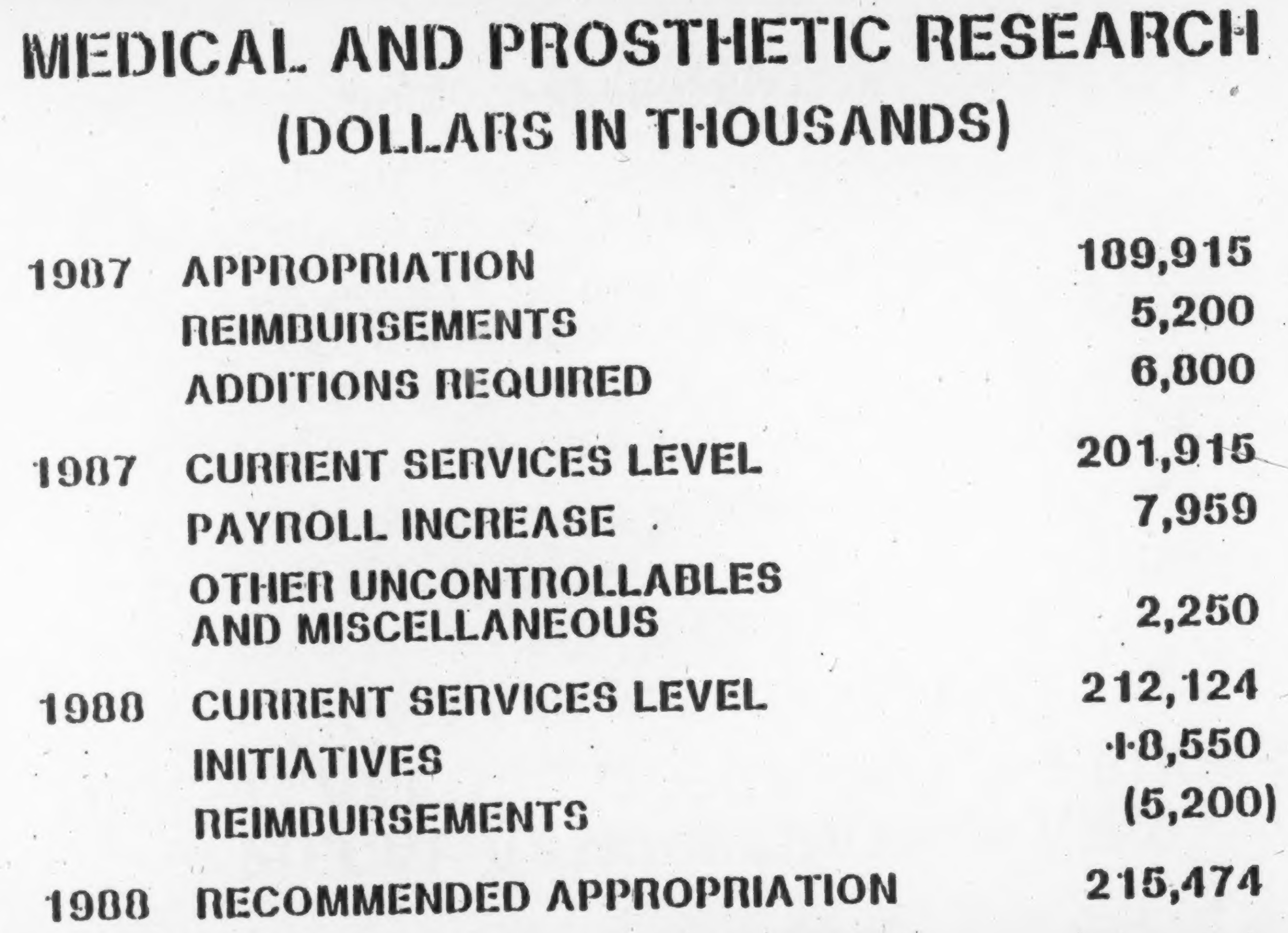
	FY 1987	FY 1988 NEED	1990 TARGET
● HOSPITAL PATIENTS TREATED	1,309.0 K	1,349.0 K	1.7 MIL
● VA NURSING HOME - ADC	11.0 K	12.5 K	15.5 K
● COMMUNITY NURSING HOME - ADC	12.0 K	15.0 K	19.0 K
● AMBULATORY CARE - VISITS	18.5 MIL	18.9 MIL	23.4 MIL
● INNOVATIVE LTC PROGRAMS			
- HOSPITAL BASED HOME CARE (VA)	52	65	76
- GERIATRIC EVALUATION UNITS	60	80	172
- RESPITE CARE PROGRAM	1	41	172
- ADULT DAY HEALTH CARE (VA)	8	20	76
- GERIATRIC RESEARCH EDUCATION AND CLINICAL CENTERS	10	13	25

Figure 7

FY 1988 EXTENDED CARE INITIATIVES
(DOLLARS IN THOUSANDS)

• VA NURSING HOME	($23,000)
• COMMUNITY NURSING HOME	+81,700
• HOSPITAL BASED HOME CARE PROGRAMS	+ 3,512
• ADULT DAY HEALTH CARE PROGRAMS	+ 8,091
• COMMUNITY RESIDENTIAL CARE PROGRAMS	+ 1,779
• GERIATRIC EVALUATION UNITS	+ 2,884
• GERIATRIC RESEARCH EDUCATION AND CLINICAL CENTERS	+ 7,482
• RESPITE CARE PROGRAMS	+ 309
• HOSPICE CARE PROGRAMS	+ 2,472

Figure 8



MEDICAL AND PROSTHETIC RESEARCH

(DOLLARS IN THOUSANDS)

1987	APPROPRIATION	189,915
	REIMBURSEMENTS	5,200
	ADDITIONS REQUIRED	6,800
1987	CURRENT SERVICES LEVEL	201,915
	PAYROLL INCREASE	7,959
	OTHER UNCONTROLLABLES AND MISCELLANEOUS	2,250
1988	CURRENT SERVICES LEVEL	212,124
	INITIATIVES	+8,550
	REIMBURSEMENTS	(5,200)
1988	RECOMMENDED APPROPRIATION	215,474

Figure 9

MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

1987	APPROPRIATION	41,194
	ADDITIONS REQUIRED	1,232
1987	CURRENT SERVICES LEVEL	42,426
	PAYROLL INCREASE	1,348
	OTHER UNCONTROLLABLES AND MISCELLANEOUS	(1,150)
1988	CURRENT SERVICES LEVEL	42,624
	INITIATIVES	+7,350
1988	RECOMMENDED APPROPRIATION	49,974

Figure 10

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Mortgage Bankers Association of America

STATEMENT OF

Ronnie J. Wynn, CMB
President
Colonial Mortgage Company, Montgomery, Alabama

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

Hearings on

The Fiscal Year 1988 Veterans Administration Budget

February 19, 1987

Mr. Chairman and members of the Committee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company, Montgomery, Alabama. I am also Chairman of the Legislative Committee of the Mortgage Bankers Association of America (MBA).* Accompanying me today are Burton C. Wood, MBA's Legislative Counsel, and Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the Administration's proposed budget for the Veterans Administration (VA) for Fiscal Year (FY) 1988, especially the provisions of that budget that call for the imposition of a 2.5 percent "user fee" for the VA home loan guaranty program and the provisions that would revoke the authority of the Administrator to set maximum interest rates for loans guaranteed in the VA home loan program.

In addition, MBA would like to comment on the Administration's budget proposals to amend current law in order to reduce the percentage of sales of VA acquired properties financed with vendee loans, to sell approximately $900 million of VA loans without recourse in the period FY 1988-1991, and to extend the 1 percent fee on VA-guaranteed loans (which is due to expire on September 30, 1987). MBA also will address the potential impact of the Administration's proposed changes for programs administered by the

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

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Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) on the VA home loan guaranty program.

MBA also will make recommendations on the current VA no-bid problem, on adjustable rate mortgages (ARMs), and on two bills introduced by Chairman Cranston, S 9, the "Service-Disabled Veterans Benefits Improvements Act of 1987," and S 477, the "Homeless Veterans Assistance Act of 1987."

Any review of the VA home loan guaranty program must begin with a consideration and a rejection of the increase in the funding fee proposed by the Administration in its FY 1988 budget. The President's 1988 Budget proposes to increase the VA funding fee to 2.5 percent effective June 1, 1987.

President Reagan has steadfastly said that he would not increase taxes. With this proposed fee increase, he contradicts himself. The proposed fee is not only a tax on veterans seeking to own a home, but is contrary to the whole purpose of the VA home loan program. The proposed fee is more than a tax, it is an indirect effort to undercut the decision of Congress, reviewed and revised as recently as last fall, to recognize veterans' service by helping veterans to own their homes. If additional taxes are needed, they should be broad-based and not targeted to veterans or any other highly specific group. MBA urges that the Administration's proposed increase in the VA guaranty fee be rejected.

MBA believes that the VA home loan guaranty program is an excellent one and that the VA has operated the program well. The program is not perfect and it can be improved.

MBA has worked jointly with the VA to assist the VA in adapting the home loan guaranty program to current economic conditions where there is a relatively low rate of inflation in home sales prices. In October 1986, Congress passed legislation, the "Veterans Benefits Improvement and Health-Care Authorization Act of 1986" (P.L. 99-576), amending the home loan guaranty program. That act included some changes that MBA had recommended the VA adopt administratively. It called for tighter credit underwriting requirements and working with lenders in establishing uniform qualifications for appraisers doing appraisals for the VA.

There are some additional adjustments that we believe should be made to the home loan guaranty program. The VA should be authorized to guarantee adjustable rate mortgages (ARMs) with such limits, if any, as the Administrator deems necessary. The program should accept mortgage interest rates that are negotiated between borrower and lender, and not limited to interest rates that are administratively set. And, with respect to vendee loans, the Administrator should be able to make the best deal possible when selling properties acquired by the VA.

With respect to the VA no-bid situation, changes should be made that would reduce the number of no-bids that are caused by delays in the foreclosure process. In particular, Congress should delegate foreclosure authority to lenders in order to reduce delays, and accrued interest should not be included in the no-bid formula in certain cases where there are delays in the foreclosure process. These include avoidable delays caused by the VA after the lender is ready, willing, and able to foreclose; unavoidable delays, such as bankruptcy; and delays caused by forbearance.

Mortgage bankers are proud of the fact that they have participated in making a program work that has helped 11.6 million American veterans become homeowners. We appreciate your concern, Mr. Chairman and members of the Committee, that the program continue to be operated in the most effective way possible.

THE PROPOSED INCREASE IN THE FUNDING FEE SHOULD BE REJECTED

The President's Budget for FY 1988 calls for an additional 1.5 percent "fee" to be added to the 1 percent funding fee currently being collected from veterans. The President's FY 1988 Budget (Appendix, page I-Y18) estimates funding fee collections would increase in 1988 by $360.8 million. The Administration projects these fees would be large enough to cover projected losses from defaults and obviate the need for future appropriations. The change would be effective on June 1, 1987, before the current fee expires on September 30, 1987, and would be made permanent.

If Increased Taxes Are Needed to Reduce the Deficit, They Should Not Be Targeted to Homebuying Veterans

It may well be that new taxes will be necessary to allow the Government to reduce the Federal budget deficit in FY 1988, but those taxes should be broad-based and should be decided upon in an open discussion of tax policy. The 2.5 percent user fee proposal is a back-door levy on homebuying veterans, thinly disguised as a cost-related user fee intended to strengthen the program.

The 2.5 percent fee proposed by the Administration would be a significant tax increase for the homebuying veteran. The average VA mortgage is $75,000. The current 1 percent fee amounts to $750. A 2.5 percent fee would amount to $1,875, an increase of $1,125 in closing costs. This 150 percent increase would create eligibility problems for the veterans who most need the VA home loan guaranty program.

The increase in the funding fee also could aggravate the current no-bid crisis faced by lenders in certain areas of the country. On a $60,000 property with no downpayment and a 2.5 percent guaranty fee, the mortgage amount would be $61,500. In areas subject to fluctuating economic conditions, the fair market value of the property could decline. For example, at a time when the mortgage principal has been reduced to $61,000, the property could be appraised at only $40,000. In case of foreclosure, the additional amount of the financed fee (which increases the amount of total indebtedness), when the necessary calculations are made, could tip the scale and create a no-bid. Lenders would have to protect themselves by tighter underwriting, which could hurt the veteran who needs the program.

The Fee Would Increase Borrowing Costs to Veterans

The VA has indicated that veterans would be allowed to include the origination fee in the principal balance of the loan. Using this approach, the 2.5 percent fee would be paid by the lender to the VA at the time the mortgage was originated, and the veteran would pay back this advance, with interest, over the life of the loan. Based on historical data, MBA has calculated the amount of the average VA-guaranteed mortgage to be $75,000, on which the proposed additional fee would be $1,125. The extra payments, over the 30-year term for which VA-guaranteed mortgages typically are written, would add approximately $3,100 to the borrower's costs. This additional expense to the borrower of the average mortgage amount is an arithmetical calculation based upon an interest rate of 8.5 percent, which was the administratively allowed rate when the calculations were made.

Averages are not the only way to understand the adverse impact upon the cost to veterans that adoption of the proposed increase in the fee would have. In fact, the hardest hit veterans would be those in the lower income ranges. The VA has a procedure whereby marginal cases are specially reviewed prior to being approved. Marginal cases are those where the veteran is stretching to buy a home. In calendar year 1984, approximately 60 percent of VA's marginal prior approval cases were for mortgage amounts that were less than the average mortgage amount. The impact of the increased cost of the higher fee will affect most severely those borrowers who are on the margin and who are struggling to achieve homeownership by the use of the VA program.

The Fee Would Threaten the No-Downpayment Feature of the Program

The VA has indicated that it will allow veterans to pay the proposed increase in the funding fee directly to the VA in cash, or allow lenders to advance the fee on the veteran's behalf and add the advance onto the original balance of the loan. If such inclusion in the loan is not fully and continually allowed, the effect is the same as requiring a downpayment of 2.5 percent. Because the inclusion of a 2.5 percent fee in the principal amount of the mortgage could make the total housing debt of the veteran more than the resale value of the house, the VA may find it impossible to continue to allow the fee to be financed.

The Fee Is a Transfer of Burden

In proposing that homebuying veterans should increase their mortgage debt by the amount of the proposed additional origination fee, the Administration is asking veterans to shoulder the burden of expenses brought about by veterans who entered the home loan guaranty program at an earlier time. This is another reflection that the proposed fee is not user-cost related. Moreover, it shows a willingness on the part of the Administration to transfer the government's burden of general obligations, entered into in the past, to a targeted group of borrowers who are not specifically benefiting from those obligations.

Furthermore, current borrowers are subject to the recently enacted requirements to tighten the VA home loan program, yet these very borrowers would also have to cover losses attributable to veteran borrowers who received loans prior to those program changes, if the funding fee is increased to 2.5 percent.

The Fee Is an Attack on the Program

Beginning in 1981, the Reagan Administration has consistently demonstrated that it believes the Government should discontinue its commitment to support the homeownership aspirations of Americans. In 1981, the Administration proposed a rollback and elimination of the Federal Housing Administration (FHA) mortgage insurance program and the GNMA guaranteed mortgage-backed security (MBS) program. Congress disagreed. In 1984, the Administration proposed a scheme under which the VA would make lenders dispose of all properties after default, even after the Administration had been warned that such a drastic and retroactive change could wreck the program. Congress would not allow it.

In 1985, the Administration began practicing the political tenet that "the power to tax involves the power to destroy." By proposing a 5 percent tax in 1985, then a 3.8 percent tax in 1986, and now a 2.5 percent tax in 1987 on the users of the VA home loan guaranty program, the Administration appears to be trying to accomplish indirectly what it cannot achieve directly: a diminution and even a phasing out of the VA home loan guaranty program.

MBA strongly urges that this Committee and the Congress reject the proposed increase in the funding fee for the VA home loan program.

VENDEE LOANS

The Administration's 1988 Budget (Appendix, page I-Y16) indicates that the VA would sell vendee loans in all cases without recourse. MBA opposes that proposal. Sale of vendee loans without recourse shifts the credit risk of default from the VA to the private purchasers, who necessarily adjust their purchase prices accordingly. Because of its size, and because it is the lender, the Government is a more efficient manager of vendee loan credit risk than any private buyer can be. Therefore, it can be expected that the reduction in the sales price paid to the Government by the private industry buyers of vendee loans will be greater than the savings the Government might realize by transferring the risk of default.

It is important to note that vendee loans sold with recourse can be put into mortgage pools backing GNMA securities. If these loans are sold without recourse, it is doubtful whether they could be put in GNMA pools. This means the loans would be sold at outrageously low prices or not at all.

In the "Deficit Reduction Act of 1984" (PL 98-369), limitations for vendee loans were set for the VA so as to minimize the number of vendee loans to the greatest extent consistent with maintaining the effective functioning of the VA home loan guaranty program. At least 60 percent of the purchases by private buyers of property acquired by the VA are required to be financed by the VA, with the maximum set at 75 percent. The President's FY 1988 Budget proposes to reduce this limitation on the number of vendee loans to between 40 and 60 percent of such sales. MBA urges that the quota concept be removed, and that the VA be allowed to use guaranteed vendee loans as fully as it deems economically advantageous in selling property acquired in the home loan guaranty program.

FREE VA INTEREST RATE

MBA supports legislation that would free VA loans from any interest rate controls, including the regulation of either interest rates or discount points. Under current law, the maximum interest rates on VA loans are set by the VA Administrator. These rates, however, historically have not accurately reflected the market rate for mortgages. If the maximum VA interest rate is too low, then home sellers often must pay substantial discount points to raise the yield on the mortgage to the level set by forces of supply and demand in the secondary mortgage market. Analysis suggests that a major portion of these discount points are effectively paid by the buyer in the form of a higher price for the property.

Since 1983, the interest rates on FHA-insured mortgage loans have been determined by the market. The VA home loan guaranty program is put at a disadvantage if the VA does not track the market closely. Sellers may refuse VA financing as an alternative because of the spectre of their having to pay substantial discount points if the VA sets its rate too low. Furthermore, to take advantage of the GNMA MBS program, lenders may have to place VA and FHA loans in separate pools if their interest rates are more than 1 percent apart. Although VA has been quite responsive to market forces over the past several years in making interest rate changes, a free rate would ensure the most efficient operation with the secondary market and minimize disruptions in the availability of mortgage credit to veterans.

EXTENSION OF THE FUNDING FEE

The VA home loan guaranty program has always been an entitlement program. When Congress created the VA home loan guaranty program in 1944 to assist veterans returning from World War II to buy a home, Congress did not design it or intend it to be supported by user fees. The program was a recognition by a grateful nation that the men and women who had forgone civilian life to defend the vital interests of the country should be aided in achieving homeownership. The program was partial payment for services performed.

The program became a commitment to young persons who entered military service in subsequent years to protect the vital interests of the nation in Korea, Vietnam, and elsewhere. That commitment has been reviewed from time to time, and Congress has always determined to renew it, the latest review being only a few months ago.

From the beginning, there was a realization that the program would need appropriations, and appropriations have been made in several fiscal years during the operation of the program. In 1984, Congress was faced with the fact that the economic cycle and certain changes in other VA operations precluded the VA from funding the home loan guaranty program from internal VA sources, and that appropriations would be required to continue the program.

At that time, Congress considered whether to renew its commitment to qualified veterans, especially the Vietnam veterans who are now reaching the point in their lives when they are ready to buy a home. The requested authorization and appropriations were granted; the VA was directed to administer the program in certain ways to reduce costs; and a 1 percent temporary funding fee was established, but scheduled to expire September 30, 1987.

Given the President's Budget proposals for FY 1988, Congress should reexamine whether the purpose of the VA home loan guaranty program is the same now as it has been for more than 40 years. The program was never designed to be actuarially sound, but to guarantee a mortgage loan to any qualified veteran, with no downpayment required. From the time the VA initiated its home loan guaranty program in 1944 until the end of 1985, 11.6 million loans had been guaranteed. The vast majority of those loans have cost taxpayers only the administrative costs of processing the initial approval. Only 4 percent of those loans have resulted in foreclosure.

Because the temporary funding fee expires at the end of FY 1987, Congress should review whether it wishes to continue the program as an entitlement.

IMPACT OF PROPOSED CHANGES IN GNMA, FNMA, AND FHLMC PROGRAMS

Government National Mortgage Association

GNMA has announced an increase in its mortgage-backed security guaranty fee from 6 to 10 basis points, which is a 67 percent increase, effective March 1, 1987. GNMA securities are backed by pools of VA mortgages, as well as FHA mortgages.

This GNMA fee increase will be passed onto veteran homebuyers. It is estimated that on a $60,000 mortgage, the GNMA fee increase would amount to an additional $187 in closing costs.

Lenders cannot absorb the cost of the additional fee. The cost of servicing a loan has greatly increased in recent years, i.e., 86 percent between 1979 and 1985. The cost of servicing GNMA pools is expected to have risen again in 1985 and 1986, particularly in economically distressed areas.

Alternatively, passing the cost of the increased fee on to investors would make GNMA securities less attractive as investments, with the effect of making it more difficult for veterans to have access to financing.

Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation

The number of VA mortgages that are pooled to back securities issued by FNMA and FHLMC is small. However, veterans would be affected by proposed changes in FNMA and FHLMC programs to the extent that VA loans back their securities. The Administration would freeze FNMA and FHLMC loan purchase limits at the lesser of the current $153,100 limit or no higher than the 75th price percentile of home sales in each sales market. The purchase limit was increased January 1, 1987, and reflects the 14.9 percent increase in home prices during FY 1986.

MBA opposes the proposal to freeze or reduce these limits. Doing so would prevent many homebuyers in many high-cost metropolitan areas from purchasing homes.

INCREASE IN GUARANTY MAXIMUM

MBA supports the proposal included in Section 6 of S 9, the "Service-Disabled Veterans Improvement Act of 1987," introduced on January 6, 1987, by Chairman Alan Cranston, to increase the maximum amount of the VA home loan guaranty from $27,500 to $36,000. Such an increase would bring the relationship between the level of the guaranty amount and the ever-increasing cost of new and existing housing closer to historical ratios. The VA guaranty has not been raised since 1980.

Lenders ordinarily lend up to four times the guaranty amount, or up to $110,000, with no downpayment. In many areas, the applicable maximum allowable mortgage amount for VA does not reflect the realities of the housing marketplace. In those areas where the maximum amount is insufficient, homebuyers who might rely on the no-downpayment VA home loan program are deprived of this available financing vehicle. And, in many instances, these homebuyers have no other alternative sources of credit.

From 1974 to 1986, the median price of new single-family homes jumped from $35,900 to $92,000, an increase of 156.3 percent. Had the VA maximum guaranty been adjusted annually in equal proportion to the increase in new home prices, the 1986 guaranty would have reached $44,847 (Exhibit 1).

During the same period, the median price of existing single-family homes increased over 150.9 percent, from $32,000 in 1974 to $80,300 in 1986. Adjusting the VA maximum guaranty for annual increases in existing home prices for this period would have resulted in a maximum guaranty of $43,914 in 1986 (Exhibit 1).

EXEMPTION FROM SEQUESTRATION

With the enactment of the "Balanced Budget and Deficit Control Act of 1985" (PL 99-177) the parameters of the budget process, as it affects the smooth operation of the VA home loan guaranty program, are not as clear as they have been in the past.

Section 8 of S 9 would clarify the status of the VA home loan guaranty program. Benefits under this program would be specifically exempted from any sequestration order, or sequestration law enacted, for any fiscal year after FY 1986. MBA strongly supports this proposal and urges that Congress enact it into law.

ADJUSTABLE RATE MORTGAGES

MBA urges that the VA be authorized to include ARMs in the home loan guaranty program. ARMs have become accepted by borrowers in the conventional mortgage market, and FHA has expanded its insurance program to include ARMs. The conventional and FHA markets have demonstrated that ARMs are beneficial because they permit borrowers and lenders to tailor transactions to the needs of borrowers. Borrowers who do not want to pay for the predictability of a fixed rate mortgage can agree to the lower interest rates that lenders can offer when the borrower bears some of the risk of inflation and other economic conditions that generally cause rates to rise.

MBA believes that VA ARMs should be authorized without statutory ceilings or caps on market adjustments. Adjustments should be freely negotiated, just as traditional long-term fixed rate mortgage interest rates are negotiated. At the most, authority could be left with the Administrator of the VA to set caps for ARMs in the home loan program as the program and the veterans it benefits gain experience with ARMs.

Whatever may have been the case previously, ARMs are no longer an untested and unknown quantity. Approximately 53 percent of new conventional mortgages originated in the last quarter of 1983 were ARMs. The percentage continued to rise to 57 percent by the last quarter of 1984 and dropped back to 50 percent in 1985. (Federal Home Loan Bank Board, "Conventional Home Mortgage Rates," February 1986.) Although substantially lower interest rates restored borrower ability to select fixed rate mortgages in 1985 and 1986, ARMs continue to be a significant borrower option in the conventional and FHA markets. Veteran borrowers should also enjoy the option.

VA FORECLOSURE CLAIM PRACTICES (NO-BIDS)

Under the default and foreclosure provisions of the VA home loan guaranty program, the VA has always had the option of either acquiring a foreclosed property and paying the lender the loan amount or leaving the property with the lender and paying only the guaranty amount (a "no-bid"). Although the VA had the authority to exercise the "no-bid" option, prior to August 1984 it did so only in very isolated cases. However, in the "Deficit Reduction Act of 1984" (P.L. 98-369), Congress included a specific formula that significantly altered VA foreclosure claim practices and forced the VA to enter into no-bids. This change represented a drastic departure from practices of the previous 35 years of the VA home loan guaranty program during which the VA, in almost 99 percent of the cases, paid the entire loan amount to the lender and acquired the property.

Impact

Foreclosures of VA-guaranteed home loans have more than doubled in the last five years, with most of the increase concentrated in geographic areas of the country that have been devastated by severe economic setbacks (Exhibit 2). With increasing frequency (from 238 cases in 1982 to 5,236 cases in 1986) (Exhibit 3), the VA has been paying the lender only the guaranty amount and leaving the foreclosed property, which has greatly depreciated in value, with the lender. The no-bid situation has caused lenders to suffer severe losses. With an average net loss per loan of $16,500, industry-wide losses totalled more than $86 million in 1986.

Implementation of Legislative and Administrative Proposals

Currently, the statutory formula that determines whether a VA foreclosed loan results in a no-bid is as follows: If the total indebtedness exceeds the appraised value of the house (net of VA administrative costs equal to 10.5 percent of the loan) by more than the guaranty amount, the VA pays the lender the guaranty amount.

MBA encourages Congress and the VA to take another look at the statutory formula for determining no-bids, and to take into consideration the extraordinary plight of both homeowners and lenders in areas of serious economic distress, with a view toward significantly lowering the number of no-bid cases in such areas.

Although there seems to be no definitive solution to the VA no-bid problem, changes in underwriting, appraisal, and servicing procedures will improve the quality of the VA loans. Legislation enacted in 1986 makes such improvements.

In addition, the formula by which VA determines whether to acquire a property or to pay the guaranty is structured so that delays in the foreclosure process almost inevitably lead to no-bids. When a foreclosure sale is delayed, total indebtedness increases because interest continues to accrue, thereby tipping the scale and creating a no-bid.

VA should issue timely bidding instructions for foreclosure sales so that lender will not have to postpone such sales. In addition, VA sometimes asks lenders to postpone sales and grant forbearance or wait until the loan can be refinanced or sold; this delay again results in a no-bid situation. If lenders are asked by VA to grant forbearance or delay foreclosure sales, VA should assure that the accumulation of additional debt will not result in a no-bid.

Last fall, MBA formed a special VA Subcommittee to review the current no-bid situation and to formulate recommendations to remedy the problem. As a result of the discussions held by the special Subcommittee, MBA has adopted the following recommendations that would help alleviate the no-bid problem.

MBA urges Congressional action that would enable full authority for VA foreclosures to be delegated to lenders. This would involve granting lenders the authority to (1) order the pre-foreclosure appraisal, (2) make the calculation necessary to determine whether the VA should acquire the property or pay the guaranty, and (3) determine the appropriate bidding instructions at the foreclosure sale.

Delays in issuing timely foreclosure bidding instructions, due to inadequate VA staffing, often turn potential VA acquisitions into VA no-bids because of the additional interest accrual during the period of delay. The delegation of foreclosure authority to lenders would reduce these delays, without increasing costs to the federal government. Existing

VA staff could be dedicated to monitoring and auditing lender performance to assure integrity of the system.

The statutory formula used to calculate whether a VA foreclosed loan results in a no-bid was enacted in the "Deficit Reduction Act of 1984" (P.L. 98-369). If the difference between the total indebtedness and the net value of the house (appraised value minus VA administrative costs) is more than the guaranty amount, the VA pays the lender the guaranty amount and does not acquire the property. The total indebtedness includes the unpaid principal plus the interest on the loan as of the liquidation sale, or such earlier date following the expiration of a reasonable period for the sale to occur as the Administrator may specify. This provision should be clarified so that the amount of accrued interest due to delays in the foreclosure process does not increase and in some cases turn the foreclosure into a no-bid.

MBA urges several changes that would decrease the number of no-bids that occur solely as a result of interest accrued during the period that a loan is in default.

First, accrual of interest for purposes of the no-bid calculation should cease when the lender is ready, willing, and able to foreclose. However, such interest should be reimbursed by VA as part of the lender's claim if VA acquires the property. Costs of avoidable delays in foreclosing loans would be borne by the VA in cases where the VA is responsible for postponing the expeditious completion of foreclosure.

Second, in cases where a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, lenders should have the option to request that VA cease accruing interest for purposes of the no-bid calculation. In return, lenders would forfeit the right to be reimbursed for such interest if VA acquires the property.

Lenders would continue to be responsible for the cost of unavoidable delays due to bankruptcies and lengthy foreclosure statutes. However, by forfeiting a portion of the interest, lenders could avoid acquiring the property.

Third, interest that accrues during a period of forbearance by a lender should not be used in the no-bid calculation, but should be reimbursed by VA as part of the lender's claim if VA acquires the property. VA frequently asks lenders to forbear when a loan goes into default, but the additional interest costs accrued during the forbearance period are not reimbursed by VA. Since VA requests forbearance, VA should pay for the delay if the case turns into a foreclosure. Without such a policy, lenders will be more reluctant to forbear because of the potential of significant losses.

MBA believes that these changes to the loan guaranty program are reasonable and will improve the home loan guaranty program. If lenders are forced to bear increasingly greater amounts of risk and losses, they will be forced, unfortunately, to discontinue originating VA loans.

HOMELESS VETERANS ASSISTANCE ACT OF 1987

MBA is deeply concerned about the problem of the homeless, particularly homeless veterans. It is unconscionable that persons who have dedicated a portion of their lives in the service of this Nation's defense go without shelter. Admittedly, solutions may be difficult, but the concept of S 477, the "Homeless Veterans Assistance Act of 1987," is a valid one. We have not had adequate time to make a thorough analysis of it, but we will make such an analysis and furnish it to the Committee promptly.

MBA appreciates the opportunity to testify before this Committee and would be happy to answer questions or provide additional information, as necessary, for inclusion in the record.

EXHIBIT 1

	Maximum VA Guaranty		Median Sales Prices					
			Existing Homes		New Homes 1/		All Homes 2/	
	Amount	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974	Price	% Change From 1974
1974	$17,500	NA	$32,000	NA	$35,900	NA	$32,725	NA
1975	$17,500	0.0	$35,300	10.3	$39,300	9.5	$36,026	10.1
1976	$17,500	0.0	$38,100	19.1	$44,200	23.1	$39,162	19.7
1977	$17,500	0.0	$42,900	34.1	$48,800	35.9	$43,981	34.4
1978	$25,000	42.9	$48,700	52.2	$55,700	55.2	$49,891	52.5
1979	$25,000	42.9	$55,700	74.1	$62,900	75.2	$56,825	73.6
1980	$27,500	57.1	$62,200	94.4	$64,600	79.9	$62,572	91.2
1981	$27,500	57.1	$66,400	107.5	$68,900	91.9	$66,782	104.1
1982	$27,500	57.1	$67,800	111.9	$69,300	93.0	$68,057	108.0
1983	$27,500	57.1	$70,300	119.7	$75,300	109.7	$71,232	117.7
1984	$27,500	57.1	$72,400	126.3	$79,900	122.6	$73,767	125.4
1985	$27,500	57.1	$75,500	135.9	$84,300	134.8	$77,052	135.5
1986	$27,500	57.1	$80,300	150.9	$92,000	156.3	$82,318	151.5

		Price Adjusted VA Guaranty			RATIO: Price Adjusted Guaranty to Actual Guaranty		
	Maximum VA Guaranty	For Existing Homes	For New 1/ Homes	For All 2/ Homes	For Existing Homes	For New 1/ Homes	For All 2/ Homes
1974	$17,500	$17,500	$17,500	$17,500	1.00	1.00	1.00
1975	$17,500	$19,305	$19,157	$19,265	1.10	1.09	1.10
1976	$17,500	$20,836	$21,546	$20,942	1.19	1.23	1.20
1977	$17,500	$23,461	$23,788	$23,519	1.34	1.36	1.34
1978	$25,000	$26,633	$27,152	$26,679	1.07	1.09	1.07
1979	$25,000	$30,461	$30,662	$30,388	1.22	1.23	1.22
1980	$27,500	$34,016	$31,490	$33,461	1.24	1.15	1.22
1981	$27,500	$36,313	$33,586	$35,712	1.32	1.22	1.30
1982	$27,500	$37,078	$33,781	$36,394	1.35	1.23	1.32
1983	$27,500	$38,445	$36,706	$38,092	1.40	1.33	1.39
1984	$27,500	$39,594	$38,948	$39,447	1.44	1.42	1.43
1985	$27,500	$41,289	$41,093	$41,204	1.50	1.49	1.50
1986	$27,500	$43,914	$44,847	$44,020	1.60	1.63	1.60

Sources: Bureau of the Census; National Association of Realtors.

1/New home sales prices and activity for 1986 estimated based on data through November 1986.

2/Weighted average (by sales activity) of median sales prices of new and existing single-family homes sold.

Prepared by the Mortgage Bankers Association of America, Economics Department, February 1987.

EXHIBIT 2

Top 10 States by Number of No-Bids

	State	FY 1985 No. of Foreclosures	FY 1985 No. of No-Bids	FY 1985 Pct.	FY 1986 No. of Foreclosures	FY 1986 No. of No-Bids	FY 1986 Pct.
1.	Texas	4,136	258	6	7,338	1,206	16
2.	California	2,775	490	18	2,617	563	22
3.	Ohio	2,156	366	17	1,977	378	19
4.	Colorado	1,459	146	10	1,932	363	19
5.	Illinois	1,685	236	14	2,090	339	16
6.	Oklahoma	734	95	13	1,426	308	22
7.	Indiana	854	128	15	881	182	21
8.	Pennsylvania	876	184	21	825	176	21
9.	Iowa	415	91	22	417	168	40
10.	Washington	1,182	130	11	1,283	165	13

Source: Veterans Administration
Prepared by Mortgage Bankers Association of America, February 1987.

EXHIBIT 3

VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.87
1982	15,427	238	1.54
1983	21,176	689	3.25
1984	23,377	1,496	6.40
1985	27,276	3,055	11.20
1986	34,642	5,236	15.00

Source: Veterans Administration
Prepared by the Mortgage Bankers Association of America, February 1987

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
U.S. SENATE
on
THE VA HOME LOAN GUARANTY PROGRAM
on
FY'88 BUDGET PROPOSALS AND S. 9
February 19, 1987

Mr. Chairman and Members of the Committee:

My name is Shirley McVay Wiseman and I am Vice President and Treasurer of the 144,000 member National Association of Home Builders. I am a single family home builder from Lexington, Kentucky. I have been active in the home building industry for more than 20 years and am familiar with both FHA and VA housing programs both as a builder and as HUD's Deputy Assistant Secretary/Federal Housing Commissioner. NAHB is a trade association of the nation's homebuilding industry with almost 20% of our builder members involved in building housing financed under the Veterans Administration (VA) housing programs. According to NAHB's "Profile of the New Home Buyer" the VA Home Loan Guaranty Program was used by 14.5% of new single family home buyers in 1986. (Attachment A).

I am pleased to present our views on the VA Home Loan Guaranty Program. First, I would like to comment on the Administration's FY'88 budget proposals, including our opposition to the increase in the VA user fee and to the elimination of the administratively set VA interest rate. Mr. Chairman, I would also like to express our support for your legislation S.9. We support both the increase in the VA loan guaranty maximum and the mortgage ceiling exemption contained in this legislation.

VA HOME LOAN GUARANTY PROGRAM

I would like to take this opportunity to comment on the Veterans Administration Home Loan Guaranty Program in general. VA housing programs have served veterans and their families for over four decades. They have given veterans the chance to achieve homeownership with all of the opportunities that come from putting down roots and establishing community ties. Since the inception of the program, the VA has guaranteed almost 12 million loans with a value of over $270 billion.

The VA has done an excellent job in carrying out the housing entitlement programs afforded veterans. NAHB has consistently supported the VA Home Loan Guaranty Program and believes the VA to be one of the best federal agencies in terms of service to the consumer and the home builder.

ADMINISTRATION'S FY'88 BUDGET PROPOSALS

VA User Fee Increase

The President's FY'88 budget calls for an increase in the VA user fee from 1% to 2.5% effective June 30, 1987. Mr. Chairman, we appreciate your efforts and those of the VA Committee in rejecting the fee increase proposal last year and hope that you will again oppose the administration's proposal this year.

Impact of GNMA/FNMA/FHLMC on VA

NAHB views the VA fee, as well as the user fee increase proposed for the Federal Housing Administration (FHA) and the Government National Mortgage Association (GNMA) as part of a continuing effort by the Administration to restrict essential federal credit programs. We oppose all of these fees because they would increase the cost of mortgage credit to homebuyers.

The impact of the proposed changes to the GNMA program on the VA home loan guaranty program is substantial, since VA loans comprise one-third of the collateral of GNMA securities. In addition almost all of the VA loans which are originated are secured by GNMA. The proposed increase in the GNMA guaranty fee from 6 to 10 basis points will directly impact the VA home loan program by raising costs to homebuyers as well as reducing incentives for lenders to service VA loans.

The VA home loan program could also be affected by proposed changes to the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) which would limit the ability of these agencies to purchase loans.

Congress spoke very clearly in 1944 when authorizing the GI Home Loan Program as an entitlement program to enable veterans to obtain mortgage credit. Over time, Congress has acted wisely to increase the entitlement, expand the category of eligible veterans, and extend the period during which the entitlement could be utilized. There has been a bipartisan commitment over the years to help veterans purchase their own homes. This is certainly not the time to retreat from this policy by enacting measures which will limit the availability or increase the cost of the VA home loan program.

Impact of the Fee on Veteran Mortgage Payments

The impact on the homebuying veteran of raising the fee to 2.5% would be substantial, costing over $1000 in upfront closing costs. Assuming a veteran takes out a loan for $70,000 (the average loan amount for a VA home at the end of 1986) at 8.5% for 30 years, he would have an up-front cash payment of $700 with the 1% fee. If the fee is increased to 2.5%, the up-front cash payment increases by $1,050, bringing the total to $1750. Many veterans would not be able to raise that much cash at the time they planned to purchase a home. If the loan fee is financed over 30 years the veteran would pay an extra $2900 due to the fee increase.

The Increased Fee Will Cause Losses to the Fund

We anticipate that the increased fee will cause loan originations to decrease as veterans decline to use the program. This will offset projected revenue to the fund. The Congressional Budget Office has estimated that for each 1% increase in the VA fee, new loan originations would decrease by approximately 5%.

We are equally concerned about the impact upon the borrower's equity if the fee is financed up front. We are currently in a period of low home price inflation, which when combined with reduced equity positions can lead to a higher incidence of default and foreclosure. This could offset part or all of the estimated benefit of the increased fee.

Existing One Percent Fee

The current 1% funding fee, which was extended by Congress in 1984 for three years, will expire on September 30, 1987. Even with the existing 1% loan fee, the Loan Guaranty Revolving Fund may need to be supplemented by an appropriation by the Congress in FY'88.

While we support a congressional appropriation to maintain solvency in the program, we recognize the critical need to maintain current revenue, therefore we recommend that the committee retain the current 1% fee for another year to help sustain the program. We urge Congress to give serious consideration to the issue of whether to treat the program as an entitlement with the elimination of inappropriate user fees.

Negotiated Rate

Mr. Chairman, The Administration intends to once again seek authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the lender.

Recent NAHB policy supports the continued use of the administratively established VA rate. (Attachment B) NAHB has always supported the VA program as an entitlement for veterans and endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund. At the current VA administratively set rate of 8.5% (the lowest in nine years) veterans will have a better opportunity to obtain homeownership. This will especially help those entering the market for the first time.

Furthermore, because of its sensitivity to market conditions the VA prevailing rate has become an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in a volatile interest rate environment.

Asset Sales

We are concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. Our concern has to do with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. The Administration's FY'88 budget proposes to sell $900 million of the Veterans Administration's $1.1 billion loan portfolio over the next three years without recourse at a 30% discount. It is estimated that this will result in a loss of $100 million in interest income. The loss of this income stream from the properties being sold must be balanced against projected short term budgetary gains in determining actual "value" of the asset sale and long term implications and loss to the program.

LEGISLATIVE PROPOSALS

Mr. Chairman, I appreciate this opportunity to comment on the Home Loan Guaranty provisions of S. 9. Recent NAHB policy supports the loan provisions of this legislation. (Attachment B). Your leadership in introducing this legislation comes at a very important time in the program. Since home prices are rising the need to increase the loan guaranty maximum has become clear.

At the same time, use of the VA program has increased significantly due to declining interest rates. Your proposal to exempt the loan ceiling from sequestration provisions of the deficit reduction act is very important to maintain an uninterrupted flow of funds to the program.

Loan Guaranty Maximum

Attachment C to my testimony shows the need to increase the loan guaranty maximum. Since 1976, the sales price of new single family homes has increased at a much greater rate than the maximum loan guaranty. The average sales price of a new home went from $48,000 in 1976 to $111,800 in 1986, a 133% increase. The loan guaranty maximum increased only 57% in the same amount of time -- from $17,500 to $27,500. Comparing the 1986 new home sales price of $111,800 to the 1980 figure of $76,000, the last time the loan guaranty was raised, new home prices have increased 46%.

Given the substantial increases in the cost of housing since the last time the loan guaranty maximum was raised, we believe that an increase in the loan guaranty amount from $27,500 to $36,000 is well justified.

You may want to consider the establishment of a mechanism that would automatically trigger an increase in the loan guaranty maximum as home prices rise. We would also support a formula to provide differentials for high cost housing areas, similar to FHA. The present system is especially unfair to areas or states with high housing costs including California, Hawaii, and Alaska. In a relatively low cost area a majority of the market may be eligible, but in a high cost area, because of the loan guaranty maximum limit, a smaller portion of the market will be served.

Loan Ceiling Exemption

For the first time in the history of the program, a ceiling was placed on the overall number of loans that could be made by the Veterans Administration under the sequestration provisions of the Deficit

Reduction Act. In 1986, Congress had to increase the loan guaranty ceiling twice because of this legislation, causing severe disruptions in the program. This came at a time when interest rates had substantially declined, allowing thousands of veterans to purchase homes for the first time and refinancings were at an all time high.

The loan guaranty program is an entitlement program and should not be impacted by the Gramm/Rudman/Hollings deficit reduction provisions. In addition, VA home loan guarantees require no direct federal outlays. A reduction in the number of loans will not result in deficit savings.

Adjustable Rate Mortgages

Recent NAHB policy supports an adjustable rate mortgage (ARM) which allows the lender to make periodic adjustments in the effective rate of interest on a VA home loan based on a national rate index. Our policy calls for an ARM identical to FHA's adjustable rate loan. (Attachment D) Mr. Chairman, this would be similar to ARM legislation you introduced in the 99th Congress allowing interest rates to escalate no more than 1% per year with a cap of 5% over the life of the loan.

Adjustable rate mortgages with caps on interest rates have proven to be a valuable tool in the market place and would provide an important option to the veteran home buyer. Interest rates for an adjustable rate mortgage are typically 1% to 2% points lower than a fixed rate loan. While the current VA interest rate is 8.5%, FHA ARMs are available at interest rates of 6.5%, allowing a savings of almost $100 in monthly mortgage payments. The lower rate would also help offset the higher residual income levels that have recently eliminated many qualified veterans from the program. An ARM would shield veterans from the inevitable rise in interest rates that occurs in each housing cycle.

During a high interest rate environment ARMs are an even more attractive option because they carry lower initial rates. As rates fall ARMs allow the borrower to enjoy rate decreases without the expense of refinancing.

We hope that you will again support an ARM for the VA homebuyer as the Veterans Administration is the only market participant that does not offer such a program.

ADMINISTRATIVE CHANGES

Regional Residual Income Guidelines

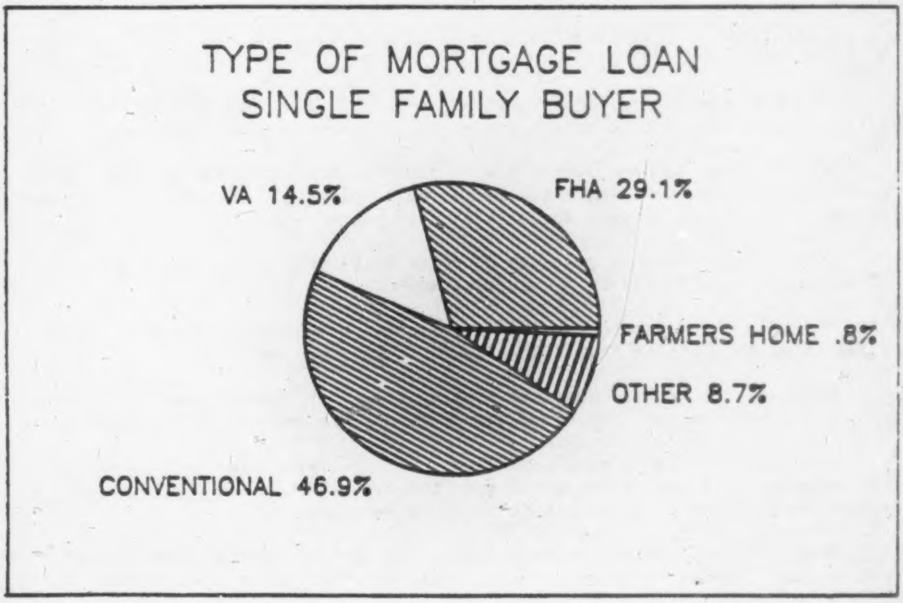
NAHB policy urges the Veterans Administration to adopt residual income guidelines which more accurately reflect living costs in local areas when qualifying veterans for home loans. (Attachment E). Legislation passed last year called for a tightening of underwriting criteria for VA home loans. The regional limits adopted by VA are an average of high and low cost areas and as a result are having the effect of unnecessarily disqualifying credit worthy veterans. We support and encourage efforts which VA has undertaken to evaluate the impact of this regional approach and to consider the benefits for in-service personnel. By using income limits which more accurately reflect costs in specific cities and localities rather than by broad geographic regions and by including the value of benefits available to military personnel more veterans will qualify for home loans.

CONCLUSION

In closing, I would like to emphasize our opposition to the increase in the VA user fee and the establishment of a negotiated interest rate for veteran homebuyers. We support an increase in the loan guaranty maximum, exemption from mortgage ceilings and provision for an adjustable rate mortgage, so that veterans will be better assisted in obtaining home loans. It is essential that the VA remain true to its basic responsibility of providing credit assistance to veterans for the purchase of housing and to make maximum use of the loan guaranty program. The loan guaranty entitlement should not be denied our veterans and service personnel who have so ably served our country.

I would be pleased to respond to any questions you might have.

ATTACHMENT A



Source: National Association of Home Builders, "1986 Profile of the New Home Buyer: Single Family Homes, Condominiums."

ATTACHMENT B

Date: January 15, 1987

NAHB Resolution

VA Loan Guaranty and Interest Rate Limits

WHEREAS, the federal government provides a guaranty to lenders, which, in effect allows veterans to obtain low or no downpayment home loans; and

WHEREAS, the VA home loan guaranty maximum of $27,500 has not been increased by Congress since 1980, while the median sales price of a new home has increased by approximately 40 percent during those six years; and

WHEREAS, the VA loan guaranty needs to be raised to increase the availability of no downpayment VA loans in high cost areas; and

WHEREAS, the Gramm-Rudman-Hollings sequestration provisions have been interpreted to apply to the VA loan guaranty program; and

WHEREAS, the VA loan guaranty program is an entitlement program which should not be impacted by Gramm-Rudman-Hollings sequestration provisions; and

WHEREAS, NAHB has always supported the VA program as an entitlement for veterans, and has endorsed the administered rate process which helps ensure that veterans obtain a fair interest rate; and

WHEREAS, legislation has been introduced to both increase the VA loan guaranty maximum and exempt the VA program from sequestration under Gramm-Rudman-Hollings,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress to approve proposed legislation that would increase the ceiling on the VA loan guaranty and to exempt the VA program from the Gramm-Rudman-Hollings sequestration provision,

BE IT FURTHER RESOLVED that NAHB urge Congress to continue VA's authority to establish the maximum allowable interest rate under the loan guaranty.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT C

AVERAGE SALES PRICE OF NEW HOMES SOLD : LOAN GUARANTY MAXIMUM COMPARED TO 1976

	New Single Family Homes		VA Loans	
	Average Sales Price/New Homes	% Increase Over 1976	Loan Guaranty Maximum	% Increase Over 1976
1976	$48,000	N/A	$17,5000	0
1977	$54,200	12.9%	$17,500	0
1978	$62,700	30.6%	$25,000	42.9%
1979	$71,900	49.8%	$25,000	42.9%
1980	$76,600	59.6%	$27,500	57.1%
1981	$83,000	72.9%	$27,500	57.1%
1982	$83,900	74.8%	$27,500	57.1%
1983	$89,800	87.1%	$27,500	57.1%
1984	$97,600	103.3%	$27,500	57.1%
1985	$100,800	110.0%	$27,500	57.1%
1986	$111,800	132.9%	$27,500	57.1%

N/A = Not Applicable

Source: U.S. Department of Commerce, Bureau of the Census,
Series C-25; Compiled by NAHB.

ATTACHMENT D

Date: January 15, 1987

NAHB Resolution

VA Adjustable-Rate Mortgage

WHEREAS, adjustable-rate mortgages typically offer lower initial rates than those available with fixed-rate loans; and

WHEREAS, this type of financing is particularly important during periods of rising interest rates in order to maintain the availability of affordable mortgage credit; and

WHEREAS, the Veteran's Administration is the only major market participant that does not offer an ARM program,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders work with Congress to establish a VA-guaranteed, adjustable-rate mortgage identical to FHA's adjustable-rate loan.

BOARD OF DIRECTORS ACTION: Approved

ATTACHMENT E

Date: January 15, 1987

NAHB Resolution

VA Regional Residual Income Guidelines

WHEREAS, the Veterans Administration has recently abandoned its practice of allowing each field station to set minimum residual income guidelines for loan underwriting purposes and has instead established new residual guidelines in four broad geographic regions intended to cover the country as a whole; and

WHEREAS, this change has resulted in increases in the residual levels for some family sizes in excess of 100 percent in five jurisdictions and in excess of 50 percent in 17 jurisdictions; and

WHEREAS, the new system does not distinguish between very high cost areas and lower cost areas; and

WHEREAS, the impact of the new system has been greatest for low- to moderate-income households and in-service military; and

WHEREAS, the new residual income levels do not fully account for the savings available to military personnel for such items as medical benefits, commissary and BX/PX privileges, and entertainment; and

WHEREAS, the VA has indicated that these guidelines are intended to be used in conjunction with compensating factors which may affect a borrower's ability to repay a mortgage loan; and

WHEREAS, the Veterans Administration is in the process of renewing its new residual income levels to determine whether and to what extent these levels should be adjusted to reflect the wide variations in the cost of living in different states and areas of the country, and to reflect the benefits of active military service,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge the Veterans Administration to explore and adopt residual income limits that more accurately reflect costs in specific cities and localities within each region,

BE IT FURTHER RESOLVED that NAHB urge the Veterans Administration to develop an estimate of the value of benefits available to military personnel and deduct this value from the minimum residual income of these borrowers, and

BE IT FURTHER RESOLVED that NAHB urge the VA to immediately advise its field offices and automatic lenders to take into account compensating factors, including local cost of living, when underwriting VA loans.

BOARD OF DIRECTORS ACTION: Approved

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
SENATE VETERANS' AFFAIRS COMMITTEE
BY
STAN H. SABIN
CHAIR, REAL ESTATE FINANCE COMMITTEE
FEBRUARY 19, 1987

INTRODUCTION

Mr. Chairman, my name is Stan H. Sabin. I am a REALTOR® from Huntington Beach, California and the 1987 Chair of the Real Estate Finance Committee for the NATIONAL ASSOCIATION OF REALTORS®. On behalf of the more than 775,000 members of our ASSOCIATION, I want to thank you and the members of your Committee for the opportunity to present our views on veterans' housing issues, and specifically, those issues affecting the VA Home Loan Guaranty Program.

Over the past six years, we have reviewed, analyzed and commented upon a multitude of changes that the Administration has proposed regarding the various federal housing credit programs. We are here today to express our concern over the relentless, piecemeal efforts of this Administration to dismantle these programs. It appears evident that the Administration will continue its efforts to privatize these federal programs in order to further its objective of reducing the federal government's role in housing. In keeping with the efforts of the National Association of Home Builders, the Mortgage Bankers Association and this ASSOCIATION, we feel it is imperative that Congress develop a formal NATIONAL HOUSING POLICY in order to provide a reasoned framework in which to address this nation's housing needs.

INCREASED "USER FEE" IN VA HOME LOAN GUARANTY PROGRAM

As in the past, the NATIONAL ASSOCIATION OF REALTORS® continues to oppose an increase in the VA "user fee". Since FY1986, this Administration has recommended an increase of the current 1 percent VA "user fee". This year, the President's FY1988 budget recommends that the 1 percent funding fee (which is scheduled to expire on September 30, 1987) be increased to 2.5 percent on June 1, 1987. The June date, according to the VA Administrator, Thomas K. Turnage, is necessary in order to obviate the need for an appropriation to the VA Revolving Fund.

The VA Home Loan Guaranty Program was established as a veterans' benefit, an entitlement program that was secured by service to one's country. There was no Congressional intent that the program serve as an instrument to achieve any federal economic objective. Instead, since its inception, the sole objective of the program has been to assist eligible veterans to become homeowners.

The crafters of the original legislation realized that "credit" was the essential ingredient to this program. Therefore, the program was structured to provide veterans with accessible mortgage credit in an attempt to compensate for any lost opportunities veterans may have suffered in the market during the period of their military duty.

Not only does the program seek to provide favorable credit, but it attempts to qualify as many veterans as may be "eligible". To be "eligible" for the home loan guaranty benefit, the veteran must meet service and discharge requirements, must qualify under flexible income and credit standards, and must occupy the home being underwriten by the VA loan.

In fulfilling the objective of easy credit accessibility, the program has become for some a benefit to which they feel entitled and to others a mortgage lender of last resort. To increase the "user fee", would certainly impact negatively on this latter group of veterans, possibly disqualifing them from the program for one of two reasons. Either the veteran would be unable to pay the additional "user fee" upfront or, if they opted to amortize the additional fee over the lifetime of the loan, those veteran borrowers in the marginal category would find that lenders would be reluctant to underwrite the resulting higher loan-to-value ratio loans.

The purpose of this program would be dramatically altered by a "user fee" increase, and "eligible" veterans desiring homeownership would likely be denied. However, there is justifiable concern over the continued financial stability of the VA Revolving Fund. This Fund is responsible for paying both the program's administrative costs as well as mortgage claims. The NATIONAL ASSOCIATION OF REALTORS® strongly urges this Committee to closely monitor the Fund's condition. In the meantime, we recommend that that the Committee review and consider alternative financial remedies so as to avoid being forced into hasty decisions.

CHANGE VA ADMINISTERED INTEREST RATE

In 1983, the NATIONAL ASSOCIATION OF REALTORS® supported a provision in the Housing and Urban-Rural Recovery Act which changed the FHA administered-rate to a one which is negotiated by the parties in the mortgage transaction. The program, as adopted by Congress, freed FHA rates from any maximum limitation and allowed all FHA-insured mortgages to bear an interest rate and points as agreed upon by the borrower and lender. The program was designed to substitute the market forces of supply and demand for the artificial restriction on interest rates for FHA-insured loans.

Last year, this ASSOCIATION reviewed the findings of the Department of Housing and Urban Development (HUD) on the program's performance since its enactment in 1983. According to HUD, private competitive forces appear to be working effectively in the program, and homebuyers have been provided the necessary flexibility with which to structure a loan favorable to their particular needs.

Statistics following the effective interest rates and discount points on FHA loans since deregulation indicated that points have not only stabilized but, on average, have decreased on FHA loans with the same rate as the VA maximum rate. Compared to points during the FHA administered-rate, the data shows that points have declined from 4.46 prior to deregulation to 3.78 following deregulation. According to HUD, the program has behaved in a rational manner with no extreme fluctuation in the interest rate or point spread, and has continued to maintain a relative rate advantage over conventional loans.

In keeping with our previous policy, the NATIONAL ASSOCIATION OF REALTORS® supports a negotiated rate for the VA Home Loan Guaranty Program. However, if Congress considers legislation freeing the VA rate, we believe that it will be important to study the potential impact of this action, since there will no longer be a "benchmark" rate.

INSTITUTE DIRECT APPRAISALS IN VA HOME LOAN GUARANTY PROGRAM

The NATIONAL ASSOCIATION OF REALTORS® supports the development of a direct appraisal system within the VA Home Loan Guaranty Program. At the ASSOCIATION'S recent Mid-Winter Meetings in Denver, Colorado, our Board of Directors approved the following action:

> "The NATIONAL ASSOCIATION OF REALTORS® supports legislation to implement a "direct appraisal" (loan processing) system for the VA Home Loan Guaranty Program."

During the 99th Congressional session, Representative Stan Parris (R-VA) introduced legislation, H.R. 4948, which would have authorized the Veterans' Administrator to establish an appraisal system, within the VA Home Loan Guaranty Program. Appraisal reports completed by VA-designated fee appraisers, would be received and reviewed by approved lenders, without VA staff involvement. The approved lender would be for determining and eventually certifying that an appraisal reflects market or reasonable value, not the staff of the VA. The approved lender would then be allowed to close the loan on the basis of its review, without further VA staff involvement.

Current law provides that the amount of a loan provided by the VA Home Loan Guaranty Program may not exceed the reasonable value of the property, as determined by the (VA) Administrator. Current law also directs the (VA) Administrator to notify the prospective homebuying veteran of the determination of the property's value.

The VA should retain its ultimate authority for determining market or reasonable value. However, the VA Home Loan Guaranty Program must be granted some flexibility in fulfilling its mission to its veterans. This is especially true during periods of increased loan processing activity as witnessed last spring and summer. In order to better serve veterans, this proposal would allow the VA Administrator to establish a system whereby approved lenders would review appraisal reports and then, in turn, notify the veteran of the property's market or reasonable value.

As outlined in the Parris bill, fee appraisers would continue to be randomly selected by the VA. Again, however, the appraisers' reports would be provided directly to aproved lenders, who would, in turn, independently review the appraisals, determine market or reasonable value, and close the loans on the basis of that review. Of course, the ASSOCIATION would insist that the the VA establish specific criteria which lenders would be required to meet prior to being granted authority to process loans in this manner.

The change contemplated in the Parris' bill is similar to the appraisal process which is part of HUD's FHA Direct Endorsement Program. In 1983, our ASSOCIATION was instrumental in initiating this FHA Program which the industry and HUD agrees has been very successful. Today, more than 80 percent of FHA's loan applications are processed through direct endorsement lenders.

We support this legislation because we believe that these changes will provide more timely service to the homebuying veteran. In addition, we maintain that this change will allow VA field offices to operate more effectively under its current staffing constraints.

INCREASE VA HOME LOAN GUARANTY MAXIMUM

The NATIONAL ASSOCIATION OF REALTORS® continues to support initiatives to raise the Veterans' Administration (VA) loan guaranty maximum from its present level of $27,500. The loan guaranty, also known as the veterans' entitlement, is the amount available to veterans on home loans through the VA Home Loan Guaranty Program. This entitlement is not a maximum loan limit, but rather a maximum loan guaranty. Traditionally, lenders have been assured protection through this guaranty mechanism; thus, allowing for the elimination of a downpayment requirement when a veteran purchases a home.

The lending industry has interpreted the guaranty limit to mean that the maximum loan made without a downpayment may be roughly four times the guaranty maximum. In this way, lenders are making 75 percent loan-to-value (LTV) ratio loans. If a veteran wishes to secure a VA-guaranteed loan in excess of the entitlement, most mortgage lenders require the veteran to put down 25 percent of the excess, thereby keeping the LTV at 75 percent.

Since October 1, 1980, the guaranty maximum has been $27,500 or 60 percent of the loan, whichever is less. A veteran with a full entitlement of $27,500 or 60 percent and who meets the VA's underwriting requirements can usually secure a maximum loan of four times $27,500 or $110,000 with no money down.

However, as we are all well aware, housing prices have risen since 1980. Consequently, the veteran homebuyer's purchasing power has decreased each year and the loan guaranty maximum has not been raised to reflect this appreciation of home prices.

According to the NATIONAL ASSOCIATION OF REALTORS® Existing Home Sales Report, in October, 1980 the median sales price of an existing single-family home was $62,700. By December, 1986 the median sales price had risen to $80,600 -- an increase of 29 percent. The ASSOCIATION'S Outlook for the Economy and Real Estate forecasts a 4.0 percent rate of home price appreciation during calendar year 1987. At this rate of appreciation, the median sales price of an existing single-family home in December, 1987 is estimated to be $84,107. (SEE ATTACHMENT A).

It is estimated that from October 1980, the last time the loan guaranty maximum was increased, to the end of calendar year 1987 the change in the median price of existing single-family homes represents a substantial increase of 34 percent. This analysis supports an increase of the loan guaranty from $27,500 to $36,850.

Clearly, the VA homebuyer's purchasing power has already decreased 29 percent since October, 1980 and is estimated to decrease another 5 percent by the end of 1987, if the loan guaranty maximum is not raised. The NATIONAL ASSOCIATION OF REALTORS® recommends an increase in the VA loan guaranty which will ensure that the value of the guaranty keeps pace with increases in the housing martket, and therefore, strongly supports the provision contained in S. 9, the Service-Disabled Veterans' Benefits Improvement Act of 1987, which seeks to increase the maximum loan guaranty to $36,000.

EXEMPT VA HOME LOAN GUARANTY PROGRAM FROM GRAMM-RUDMAN-HOLLINGS

Last year, the NATIONAL ASSOCIATION OF REALTORS®' Board of Directors adopted policy to support legislation which would exempt the VA guarantee authority from the Gramm-Rudman-Hollings (G-R-H) deficit reduction law. Therefore, the ASSOCIATION supports the provision in S. 9, which removes the

VA Home Loan Guaranty Program from the purview of G-R-H and thus, would exempt the program from sequestration.

The ASSOCIATION agrees with your rationale, Mr. Chairman, that this particular program should be granted a permanent exemption from the G-R-H's threat of sequestration for the following reasons: First, a fee is charged when a VA guarantee is issued to a veteran. This fee is channeled into the VA Revolving Fund, a special fund established to cover both the administrative cost of the program as well as any VA mortgage claims. Consequently, a sequestration cap, which would reduce the total amount of guaranties and thus, the amount of fees collected in a given fiscal year, would actually increase the deficit.

Second, an exemption would avoid the need for Congressional action to raise a sequestration cap in a given fiscal year in order to prevent the threatened interruption in the program's service to veterans. In 1986, the Congress responded to such threats by raising the sequestration cap on this program. The ASSOCIATION has every confidence that Congress would respond in a similar manner to any future threat of interruption in the program. However, an exemption would provide needed security, stability, and predictability to the program.

Finally, the ASSOCIATION agrees that if a sequestration cap were allowed to be implemented, it would be inequitable in its application. Cutting off the issuance of commitments when a sequestration cap was reached would deny a guaranty to a veteran whose loan application was approved after the cap was reached. This could risk the veteran's purchase agreement falling through while waiting until the start of a new fiscal year and a new sequestration cap.

The NATIONAL ASSOCIATION OF REALTORS® has always considered the VA Home Loan Guaranty Program a veteran entitlement which has been secured through service to one's country. In order to provide its most optimal usage, this program should be allowed to operate in an unfettered manner, without any unnecessary interruptions.

CHANGE IN UNDERWRITING GUIDELINES FOR VA HOME LOAN GUARANTY PROGRAM

Effective October 1, 1986, the VA Home Loan Guaranty Program instituted new underwriting guidelines. Developed by VA after seeking comment from the housing/lender industry, these new guidelines reflect VA's committment to reducing the number of VA home loan foreclosures.

For the past several years, the NATIONAL ASSOCIATION OF REALTORS® has encouraged VA to tighten its underwriting standards to ensure that the veteran borrower has the ability to assume and discharge the financial obligation of a home loan. We commend VA for its efforts to strengthen its standards, where necessary, in order to reduce foreclosures and thus, the risk to the VA Revolving Fund.

The new guidelines revise VA's existing minimum income standards for veteran homebuyers which, in the past, have been left to the discretion of the VA regional offices. In addition, the guidelines make adjustments in the types of debts which must be included in determining the veteran's monthly obligations. Finally, the standards establish a number of "benchmark" gross income-to-debt ratios which signal the loan underwriter to forward the application to a higher authority for review before approval.

Under the new system, income requirements are determined by the Department of Labor's Consumer Expenditure Survey (CES). The CES is used to establish regional standards for "minimal residual income". Since implementation of these new standards, considerable concern has been raised about the affects of the new residual income requirements. Our ASSOCIATION has heard from REALTORS® in the South, as well as parts of the Midwest, where these new "minimal residual income" standards are making it very difficult for a disproportionate number of veterans in the area to qualify for VA loans. At present, we are working with VA on a "case-by-case" basis in an attempt to minimize the affects of this new standard.

PROPERTY MANAGEMENT AND DISPOSITION

Mr. Chairman, we are aware that the Administration is still considering the establishment of a pilot program to determine the effectiveness of contracting with a commercial organization for the management and disposal of VA's inventoried properties.

As we have previously testified before this Committee, we do not believe that implementation of this proposed pilot program is necessary. As you may know, the ASSOCIATION has been working with VA (and FHA) for over a year to develop a cooperative effort by which REALTORS® and other real estate professionals across the country can assist these agencies to dispose of their properties.

There are three components of the program: real estate professional education, real estate community/agency relations, and disposition methods. In the majority of our six demonstration sites, the program has been successful in educating an increased number of real estate professionals as to the proper procedures required for selling a VA inventoried home. We have found that many interested real estate professionals shy away from VA's sales program simply because they are ill-informed. The program has offered an opportunity for these individuals to learn the process and become involved in selling these properties.

In all cases, our members, staff and other real estate professionals have met with cooperation, enthusiasm and interest on the part of the VA Regional Office staff. In some cases, our demonstration sites have established relationships with VA property management staff for the first time. In other areas, the program has served to improve and further existing relationships. We have found, however, that each meeting has been successful in developing a better understanding between real estate professionals and VA property management staff. Many times, we found that simply opening communication served to resolve what had been perceived to be long-standing problems between the two parties.

Providing for alternative disposition methods has met with varying degrees of success in our demonstration sites, and we are still in the process of refining the prototype standards. Our experience thus far has shown us that successful implementation of disposition methods depends significantly on the particular demonstration site. As a result, we are also continuing to "fine-tune" the criteria for site selection, and will, in fact, be establishing two more sites which meet our updated standards, within the next two months. (Casper, Wyoming and the Southern California area).

Our Northern California area is, perhaps, one good example of how the program is working to increase real estate professional access to VA property information. The San Francisco VA Regional Office has established a "computerized bulletin board," in which real estate professionals can access information regarding VA's listings. Not only can real estate professionals call up a particular VA property listing, but they can also access the status of that property. The "bulletin board" has just become operational, but the response from the real estate community has been very positive.

The "bulletin board" concept appears to be a workable, yet cost-effective method to increasing exposure of VA's properties. Unfortunately not all VA regional offices are so fortunate to have the resources to dedicate to this endeavor. If we have learned anything in our visits to VA regional offices over the past several months, it is that the VA Home Loan Guaranty Program departments are woefully understaffed and without adequate resources. This situation becomes even worse when we examined the staff and resources available specifically to the property management section of the Program.

In some cases, real estate professional advisory councils and VA staff agreed to test the viability of the "bulletin board" concept. However, when confronted with the need for one personal computer and the necessary staff time, we found that these resources were simply not available to property management areas. Mr. Chairman, if this or any other program to increase sales of VA's inventoried properties is to work, VA must be provided with the proper tools to meet its goals. The limited staff available to property management and disposition is working hard to dispose of these inventoried homes, sometimes in very creative, cost-effective ways. However, they simply need additional basic resources. Oftentimes, there aren't enough funds to even keep an information "hot line" open for the public and the real estate community.

VA VENDEE SALES

The Administration has also proposed increasing the minimum and maximum percentage of inventoried properties sold without vendee financing. Current law requires VA to sell at least 25 percent, but no more than 40 percent of its inventoried properties without vendee financing. The Administration's legislative proposal calls for VA to sell at least 30 percent, but no more than 60 percent without vendee financing.

Mr. Chairman, we believe that the current percentage limitations have worked well over the past two years, and that VA needs the flexibility to use vendee financing to sell its inventoried properties, particularly in areas with depressed housing markets where lenders are reluctant to provide financing. We are also aware that VA has been meeting the limitations, and has, in fact, been selling approximately 30 percent of its properties without vendee financing. At this point, we can see no reason to increase the minimum and maximum percentage limitations.

THE POTENTIAL IMPACT OF THE PROPOSED GNMA FEE CHANGE ON THE VA HOME LOAN GUARANTY PROGRAM

As you know, Mr. Chairman, the Government National Mortgage Association (GNMA) announced in December that it would be altering the allocation of the existing 50 basis points fee which is collected by issuers of the mortgage-backed securities which GNMA guarantees. Currently, loan servicers retain 44 basis points for servicing the loan, and forward the remaining 6 basis points to the GNMA Mortgage-Backed Investment Portfolio, the reserve fund which backs the GNMA guarantee. Under GNMA's proposed change, the 6 basis points which reverts to GNMA will be increased to 10 basis points, thus reducing loan servicers' fees to 40 basis points.

According to GNMA officials, this fee increase is necessary in order to bolster existing reserves and insure that GNMA could withstand any future recessions without borrowing from the Treasury. While we realize that this reallocation in the 50 basis point fee is the first in GNMA's history, the NATIONAL ASSOCIATION OF REALTORS® does not believe that such a change is necessary at this time, and that it will ultimately have a detrimental affect on future FHA and VA homebuyers.

According to our data, the GNMA reserve fund is in sound condition, with a balance of $1.35 billion as of September 30, 1986. At the end of fiscal year 1986 the total loss to the fund over its entire 17 year history was $10.6 million. Never has this fund been required to meet a total agency loss. All the losses to the GNMA program have been funded from current earnings.

The change in the current fee structure will result in a reduction of the basis points which are currently retained by the loan servicer. This 4 basis point loss amounts to a 9 percent decrease in servicing income. This increased cost to the mortgage originator is certain to be passed on to potential homebuyers in the form of higher points for VA loans, and a combination of increased points and higher rates for FHA loans.

CONCLUSION

In conclusion, Mr. Chairman, the NATIONAL ASSOCIATION OF REALTORS® strongly supports the continued unrestricted operation of the VA Home Loan Guaranty Program, and urges you and the members of this Committee to take the lead in preserving this valuable program.

Thank you for the opportunity to present our comments, and I would be happy to answer any questions.

ATTACHMENT A

Median Sales Price of Existing Single-Family Homes*
(Not Seasonally Adjusted)

October 1980	December 1986	Percent Change
$62,700	$80,600	29%

Forecast of Home Price Appreciation During 1987**

4.0%

Estimate of Change in Existing Home Prices from 10/80 to 12/87

($62,700)(.29) + ($80,600)(.04) = $21,407

10/87		Estimate		12/87
$62,700	+	$21,407	=	$84,107

Estimate of Percent Change in Existing Home Prices from 10/80 to 12/87

34%

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* "Existing Home Sales", Economics and Research Division, NATIONAL ASSOCIATION OF REALTORS®, December, 1986.

** "Outlook for the Economy and Real Estate", Forecasting and Policy Analysis Division, NATIONAL ASSOCIATION OF REALTORS®

U.S. Department of Labor

Assistant Secretary for
Veterans' Employment and Training
Washington, D.C. 20210

APR 2 3 1987

The Honorable Alan Cranston
Chairman
Committee on Veterans'
  Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Mr. Chairman:

This is in response to your request at the February 18, 1987, meeting of the Senate Committee on Veterans' Affairs to help three unemployed veterans who testified before your committee about their homelessness. I am pleased to advise you that all three of these men--Jesse Moses, Leroy Kellar and Ben Littlejohn--have taken positive steps toward attaining employment.

I asked Tom McLean, a member of my staff who is a Vietnam combat veteran as well as a veteran of many years on the streets, to lead the effort to help these individuals. He has also been involved in developing our Jobs for Homeless Veterans (JHV) programs in ten pilot cities across the country.

Tom scheduled appointments for each of the three veterans with a veterans' employment counselor at a local Job Service office and I sent them letters advising them of their appointments. Tom also hand delivered to the shelter copies of my letters.

Mr. Moses kept his appointment and, as a result of vocational testing at Job Service, is enrolled in a Job Training Partnership Act (JTPA) training program to become a digital electronic technician, a career field experiencing long-term growth in this part of the country. Mr. Moses has been attending classes regularly and receives a weekly stipend of $35.00 during the 21-week program.

Mr. Moses has filed a disability claim based on the wound he received in Vietnam. The Veterans Administration (VA) Regional Office is presently processing his claim. Mr. Moses is still living at the shelter.

Mr. Kellar did not report to Job Service; however, he had registered previously and has taken a battery of tests there. He is also still living at the shelter and, according to shelter staff members, is now working regularly in Northern Virginia. Mr. Kellar also filed a disability claim at the VA Regional Office which has again been reviewed and denied. He has, however, been receiving treatment at the VA hospital recently.

Mr. Littlejohn reported to Job Service shortly after the appointment date, but failed to return for his scheduled testing. He has been in contact with the Job Service counselor, however, and plans to return for further job or training assistance. He is no longer living in the shelter or working on the shelter staff and has moved into an independent living accommodation. Mr. Littlejohn has not filed a disability claim with the VA; however, he has been to a VA Vet Center for counseling.

The outreach and referral approach in our JHV cities has been very successful in bringing homeless veterans into lasting employment and off the streets. Preliminary results indicate that we will exceed our modest goal of placing 250 homeless veterans in unsubsidized jobs by twice this number during the first Program Year.

If you have any questions regarding these veterans from the shelter or the JHV program, please feel free to call me at any time.

Sincerely,

Donald E. Shasteen

DONALD E. SHASTEEN

STATEMENT OF
JAMES G. BOURIE
NATIONAL SERVICE DIRECTOR
AMVETS

BEFORE THE
COMMITTEE ON VETERANS' AFFAIRS
U.S. SENATE

ON

THE VETERANS ADMINISTRATION'S PROPOSED
FISCAL YEAR 1988 BUDGET

S6: "VETERANS' HEALTH CARE IMPROVEMENT ACT OF 1987"

S279: REGARDING A POSTPONEMENT OF VET CENTER
TRANSITION PERIOD

S477: "HOMELESS VETERANS ASSISTANCE ACT OF 1987"

FEBRUARY 18, 1987

Mr. Chairman, the American Veterans for World War II, Korea and Vietnam (AMVETS) is pleased to present its views on the Administration's proposed budget for the Veterans Administration for Fiscal Year 1988, S6: "Veterans' Health Care Improvement Act of 1987", S279: "Regarding a Postponement of Vet Center Transition Period", S477: "Homeless Veterans Assistance Act of 1987".

The Veterans Administration budget for Fiscal Year 1988 calls for $27.6 billion to fund medical, compensation, and other programs for 27.6 million veterans, eligible members of their families, and survivors of deceased veterans. Although the request is nearly $550 million greater than the current FY 1987 estimated requirements this represents little more than keeping pace with the increasing cost of current services.

The 1988 budget provides $15.2 billion for benefits programs, $10.3 billion for medical programs and $525.7 million for construction. Total Agency full-time equivalent employment is expected to be 218,005, down 3,126 from that currently proposed for 1987. The VA claims that this loss will be absorbed by productivity improvement and a lower workload. However, they have never been able to demonstrate how, for example, two employees can serve their veteran consumers as efficiently and compassionately as five. Moreover, the predicted reduced workload may well be a self-fulfilling result of the cutting of services.

VA's $10.7 billion request for compensation payments is based on estimates that 2.2 million veterans with service-connected disabilities will remain eligible for monthly payments, along with 323,000 survivors of veterans who died of service-connected causes. The request provides for a 3.5 percent increase in compensation rates and additional legislation will be proposed indexing the annual compensation cost-of-living adjustment to changes in the Consumer Price Index. AMVETS, as it has in the past, remains opposed to the automatic indexing of compensation and DIC rates to the Consumer Price Index. The special needs of veterans based on their age classification and their proportionately intense requirement for health care, would not be equitably reflected in the general Consumer Price Index. Indexing compensation would also de-emphasize the current thorough evaluation of the compensation system which usually accompanies the legislative process of periodic adjustment, not only of rates, but of collateral compensatory factors such as presumptions and special entitlements. The periodic compensation bill usually serves as a useful vehicle for enactment of needed improvements in veterans' programs other than compensation and DIC.

We have no quarrel with a proposed reduction in readjustment benefits of about $136 million attributable to an anticipated lower number of eligible veterans. We do, however, strongly oppose a proposed increase in the VA home loan funding fee from

1 to 2.5 percent effective 1 June 1987. Anyone with experience in the ways of government will readily understand that this 150% increase, if enacted, will only be the first step in the eventual destruction of the loan guaranty program as one of the most universally beneficial and popular veterans' entitlements, and that a 1.5% increase to the origination fee will add $3,000 to the cost of the average $70,000, 30-year VA fixed mortgage, will not be applied to current VA programs, but revert to the Treasury, and will drive the younger, first-time veteran buyer from the housing market. The Administration is also proposing to remove the interest rate limit for VA guaranteed loans, requiring veterans to negotiate rates with lenders. This proposal can only inure to the benefit of the mortgage industry at the expense of veterans who are borrowers. Consistent with the philosophy of the Grace Commission report, these proposals apply business management criteria to a program which was never intended to be operated as a private market profit and loss enterprise, but as an earned entitlement for veterans. If private sector standards are to be employed in the management of the VA loan guaranty system, sooner or later that system will be abandoned as duplicative of the private market.

The proposals for operation of the VA Department of Medicine and Surgery lead off with a shocking request for a $75 million rescission to eliminate funding that would otherwise be used during the last five months of Fiscal Year 1987 for the health care of "higher income, nonservice-connected disabled veterans" (Category C) who are considered financially able to provide for their own health care. Although this rescission of funds already appropriated is designed to affect only the Category C, or lowest priority of veterans eligible for VA health care, the practical necessities of the medical care delivery system will result in this sharp reduction of resources adversely affecting both service-connected and indigent veterans as well. VA beds are not, and cannot be, managed with A, B, and C labels. At any particular moment in time, patients are admitted to available beds not on the basis of eligibility category, but on the basis of medical need. If at a given moment, a facility has a bed available, that bed will be assigned to the next veteran whose medical assessment indicates admission is appropriate.

If the individual veteran concerned is a C case, he must pay the appropriate deductible. OMB seems intent on assigning a reduction on the basis of these eligibility categories--intent, in other words on excluding the B's and C's. However, the VA would possess no practical means to implement such policy. Instead, each facility would suffer some level of resources reduction, which would primarily affect overall resource capacity. The same variety of patients normally seen would still be present for care. Thus, on any given day, a B veteran might well be admitted to an empty bed. Empty beds would be assigned to patients on the basis of medical need, as before. The overall reduction in capacity which results from the rescission would serve to potentially bar access for some A's, some B's, and some C's, because that is the character of hospital operations. In this manner, the VA's performance as a result of the rescission undoubtedly would clash with the law, which denies the Administrator any discretion whatsoever to limit access to a VA bed for A Category veterans. During the period, October - December 1986, 690,809 veterans, or 94%, were Category A entitled and in need of care. These are bona fide health care needs of the poorest of the poor and sickest of the sick.

Although the VA budget calls for an overall increase of $548 million over FY 1987 authority, including over $400 million more for medical programs, $393 million of the medical increase will be absorbed by pay raises and retirement costs. The overall effect will be a shortage of more than $300 million required just to maintain current services. With one hand, this budget appears to provide for increased services, and with the other, it takes away more than the additions. While asking for $175 million for new facility activations, including 1,981 new FTEE, at the same time the budget projects a 1% productivity increase in this category, resulting in a loss of 1,991 FTEE in FY 1988. The overall loss of 3,126 FTEE, includes 2,631 (84%) from DM&S,

most of whom probably will involve direct medical care staff, thus reducing in quality veteran health care. The net result of this legerdemain will be 6,200 fewer direct care VA health personnel, 113,000 fewer outpatient visits, and 13,500 fewer inpatients than authorized for FY 1987. In short, the VA will meet the challenge of the increasing numbers of aging veterans by excluding many of them from the system, and allowing services to deteriorate. To further compound this lamentable situation, a proposed conversion of 282 hospital beds to nursing home care will be offset by no new nursing home construction for FY 1988 and beyond. However, AMVETS has had no quarrel with the VA (or DM&S) on the issue of conversion at under-utilized medical centers. As we understand the situation, in this particular instance, conversion will take place at medical centers which actually could use the business. In addition, the proposed budget would restrict beneficiary travel allowances to only patients receiving health care at VA medical facilities who require medically indicated special modes of transportation. As a practical matter, this means that aging and indigent veterans will be precluded from seeking care at VA facilities located away from their home areas.

The loss of 296 FTEE for the Department of Veterans Benefits including 255 FTEE from the Compensation and Pension Division and 95 FTEE Veterans Benefit Counselors who respond to veterans inquiries and process veterans claims for benefits, will impose a greater burden on the Veteran Service Officers to "pick up" the slack. (71 AMVETS National Service Officers, nationwide, made us the second largest National Service Organization in 1986 with 445,751 contacts [+35% over 1985] and 19% more Powers of Attorney.) The loss of 225 FTEE in medical research, an area in which the VA has always prided itself, and the loss of $102.3M for replacement and modernization of medical centers will result in further deterioration of facilities and equipment.

AMVETS has been proud to join with the Disabled American Veterans, the Paralyzed Veterans of America and the Veterans of Foreign Wars of the United States in formulating a detailed, independent budget proposal for the VA Department of Medicine and Surgery, copies of which have been widely distributed to include the members and staff of this Committee. This proposal calls for authorization of approximately $1.2 billion more than the Administration request and reflects what we believe to be the minimum acceptable level of medical service to veterans. Over $800 million of this increment represent uncontrollable expenditures and less than $400 million would be committed to initiative programs. We respectfully invite your consideration of this alternative, independent budget for DM&S.

On the matter of S6: "Veterans' Health Care Improvement Act of 1987" as it affects the VA's Vet Center program, AMVETS is not opposed to new categories of veterans eligible for counseling care. Indeed, the trauma of war is not restricted to one era of veterans. We are aware of certain Centers which now treat veterans of other eras and the VA's Advisory Committee on Vietnam Veterans recommended that veterans of all eras be eligible for counseling at Vet Centers. Quite naturally our concern is with the current Vet Center staffing and resources should enlarged eligibility become reality. Would this mean additional Centers, or staff; and what of resources, would Congress be willing to appropriate the necessary additional costs or will those costs be taken from other VA programs in general or from the Department of Medicine and Surgery in particular? While AMVETS has no current national resolution on the Vet Center eligibility issue, it is, nonetheless, safe to state that AMVETS would not tolerate the shifting of scarce VA dollars from veteran medical care to fund other veteran programs within the agency. At this time AMVETS can also support the postponement of the Vet Centers transition period. We are all aware that the National Needs Assessment Study authorized by earlier legislature and under contract to RTI Associates is well behind schedule. And that study was to be the cornerstone of the Administrator's decision on the future of the Vet Centers. To move ahead with the centers transition, without the study as mandated by Congress is unwise and unwarranted. Data to date reveals that Vet Centers are immensely popular with all who came in contact with them; on balance are an efficient, cost-saving program; and that there is no real reduction of clients seen. In sum, let us not be too hasty in moving the Centers to Medical Centers, or eliminating some, before all the evidence is in and we have all had the opportunity to examine it.

This postponement applies also to S279, as pertinent reports are not available, it would not be in the best interests of the Centers or their clients to transition them at this time. We hasten to add that in any transition schedule, problems will be encountered with Medical Centers and Vet Centers alike. That is, there will be Medical Centers and Vet Centers who are mistrustful, suspicious or resentful of the others; Medical Centers may not want to provide the necessary logistical support, resources to the Center staff; Medical Centers may not be willing to allow Centers that "free hand" in operation and veterans may refuse to come to a "real" VA setting. There are other substantive attendant issues which must first be addressed before a smooth transition can be accomplished.

Lastly Mr. Chairman, S477: "Homeless Veterans Assistance Act of 1987" gives us the most cause for concern. AMVETS compliments the leadership of this committee for taking heads-on a most difficult and nettlesome issue. As we see S477, it attempts, through the VA, to accomplish a variety of ends with regard to the homeless veteran, from shelter, to employment to benefits, to hospitalization.

There are no studies to tell us, with any accuracy, the numbers of homeless veterans there are in this country. We don't know what era, age, family status, disability, or any other fundamental facts. We only have estimates, and loose ones at that. Exasperating this situation is the finding that many homeless prefer street-life, are extremely mistrustful of government intrusion and suffer mental, drug or alcohol related problems. It must also be understood that, at least for veterans, more than just lip service is being done to help them. The Department of Labor's, Office of Assistant Secretary for Veterans' Employment and Training began in 1985 a $250,000, 10-city project, in cooperation with the VA and Social Security Administration, to locate, train, rehabilitate and find employment for homeless veterans. The VA itself has been, and is, actively involved in the homeless veterans issue. And again, many homeless veterans are unwilling or are unable to provide the VA with basic eligibility information. For the homeless veteran the VA offers its multitude of programs: compensation; pension; DIC; VA health care; mental health service; community residential care; domiciliary care; contract alcohol/drug treatment facilities; Vet Centers; Voc Rehab programs; home retention programs; VA outreach; and other programs, all costing millions of dollars each year. Additionally, Department of Veterans Benefits employees at the Regional Offices avail themselves to shelters and the VA has recently put together a committee to focus in on the homeless veteran issue to, among other things, explore ways to reach this veteran sub-culture given available resources.

And therein Mr. Chairman, lies the nexus of the issue: available resources. As we read S477, no additional resources are to be made available to the VA; indeed there are no costs revealed. We cannot believe that the VA is now capable of assuming a massive additional program from non-existent "available" resources. And we would oppose the shifting of scarce resources from either the benefit or medical programs to fund a homeless veteran project. It would be most unwise to drop a program of this size on the VA without additional funds for staff, administration and other items.

Mr. Chairman, AMVETS thanks the Committee for the opportunity to present its views.

THE NON COMMISSIONED OFFICERS ASSOCIATION OF THE UNITED STATES OF AMERICA

"STRENGTH IN UNITY"

STATEMENT OF

Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Committee on Veterans Affairs
UNITED STATES SENATE

on

S.279, S.477 and VA Budget
FY 1988

February 18, 1987

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The Non Commissioned Officers Association of the USA representing more than 175,000 veteran and active duty noncommissioned and petty officers of the Nation's Armed Forces appreciates this opportunity to appear. Nearly 80 percent of NCOA members are on active duty in the Armed Forces. Thus, some people question NCOA's interest in veterans' affairs without understanding that all NCOA members are veterans, even those who are still on active duty. By virtue of their service they are eligible for education benefits, loan guaranty, burial benefits, etc., and as they complete their service obligations, they may become eligible for medical care and compensation and nursing care. All the while they are members of NCOA, assisted by a system of 290 national service officers and a Washington staff working on the military personnel, military family and veterans' issues important to their future. Accordingly, NCOA is deeply interested in the work of the committee and is grateful for this opportunity to participate in the committee process.

The association has been invited today to comment on three issues before the committee. Foremost on the agenda is the VA budget proposal for fiscal year 1988. Additionally, NCOA will comment on proposals to extend the vet center program and provide a new system of services to homeless veterans and their families. It is this issue which NCOA will address first.

Homeless Veterans

A study by a Harvard University economist concluded that the number of homeless people in the United States in 1985 was approximately 350,000. Today estimates are running as high as 3,000,000 persons. The study also concluded that for every person living in shelters there are 2.3 homeless persons living in streets or parks. The number of homeless is increasing, in part, because there is an increasing shortage of low-cost housing and, in part, because low-income people are not making income gains. More recently, homeless families have gained national attention. Homeless families are displaced almost exclusively due to economic problems. One-third of the homeless population are believed to be suffering from mental illness or are drug and alcohol abusers. Some advocacy groups estimate that as much as one-third of the homeless population is comprised of veterans. It is suspected that the profile of the homeless veteran is a mirror of the homeless population at large.

The Veterans Administration (VA) is required by law to provide benefits and services only to persons who qualify as a result of prior military service under other than dishonorable conditions. A recurring problem concerning determination of eligibility lies in the unwillingness or inability of some of the homeless to provide the VA with basic background information, such as name, Social Security Number, date of birth, and dates of military service. Current outreach efforts have proven to be extremely frustrating to those individuals trying to assist homeless veterans as the veteran feels disenfranchised from society and have proven to be uncooperative the majority of the time.

One major problem facing the VA and other federal agencies involved has been in determining the actual number of homeless veterans. In many instances, in addition to being unwilling or unable to cooperate, they happen to be highly mobile. This high mobility in itself creates serious problems in determining the assets and resources needed to reach and assist the homeless veteran.

Many of these issues are addressed directly in the bill, S.477. The measure authorizes the Administrator to negotiate agreements for the purpose of providing housing to homeless veterans and their families. It authorizes the VA to transfer housing from the VA's loan guaranty inventory for this purpose to groups contracted for assistance. The bill provides a 2-year pilot program to be conducted in ten regions largely to urge volunteerism among VA employees in existing programs and expand outreach efforts. Finally, the bill requires several reports on the plight of homeless veterans including a much needed look at the chronically mentally ill.

NCOA supports the legislation, however, the association believes it could be expanded to provide the VA a much more active role in dealing with the issue of homeless veterans. Frankly, NCOA believes this as an issue which should be considered in conjunction with the extension and expansion of the Vet Center program.

Vet Centers

The Vet Center program extension is covered in two bills. The first S.279 provides a fairly straight forward two year extension of the program. It also expands the definition of facilities available for use to provide readjustment counseling. The second measure is section 4 of S.6, the Veterans' Health Care Improvement Act of 1987. This proposal provides a one year extension to the Vets Center program and concurrently expands eligibility for counselling to include active duty veterans of the Vietnam Era. Further, it opens Vet Centers to veterans of armed conflicts in Beruit, Granada, Lybia, South America, etc.

These are laudable and much needed expansions of the program, but like the homeless veterans legislation, they do not cover the range of needed improvements.

The Vet Center program is the perfect foundation from which to build an outreach program to homeless veterans. It is also well suited to meeting the counselling needs of veterans who served in conflicts prior to the Vietnam Era. Accordingly, the association wholeheartedly recommends an expansion of the Vets

Center program to address these needs.

NCOA urges the committee to redefine the mission of the Vet Centers to expand their clientele and mission. Vets Centers should be allowed to provide service to veterans of all military conflicts and should become a focal point in efforts to provide assistance to homeless veterans.

VA Budget

The VA budget request for 1988 contains few surprises for members of NCOA but it does have some disappointments. Overall, the VA has requested budget authority of nearly $27.6 billion for benefits and operations in 1988, an increase of about $548 million over spending this year. Included in the proposal are increases of $414.1 million in medical care spending, $173.6 million in benefit programs, $37 million in construction and a 3.5 percent increase in veterans disability compensation and dependency and indemnity compensation (DIC) effective December 1. The proposal is an impressive improvement over budget submissions for 1986 and 1987. Nevertheless, there are several proposals to reduce services to veterans and transfer program costs to veterans or other agencies which NCOA finds objectionable.

Cuts are proposed in medical care staffing, inpatient and outpatient visits and the number of beds available to veteran patients. Cuts are proposed in eligibility for burial plot allowances. Cuts are proposed in funding for the home loan guaranty program concurrent with an increase in the loan fee charged to veterans. Essentially, this cut seeks to transfer the cost of the loan guaranty program entirely to veteran participants in the program. And, on the subject of transfers, the proposal seeks to transfer the cost of the New G.I. Bill to the Department of Defense. The proposal announces a "fire sale" of VA loan assets and includes another legislative proposal which NCOA finds particularly disturbing. It suggests eliminating the fixed maximum interest rate on VA guaranteed loans. Many of these ideas have been considered and rejected before. Hopefully, they will not survive this year either. In this statement NCOA will examine each of these issues individually.

However, before proceeding, NCOA wishes to state its general support for the proposals and extend its commendations to the authors. It is certainly not a budget that is "Dead on Arrival". It is instead a reasonable and thoughtful spending bill which proposes a surprisingly adequate program for veterans care and services in many areas. Unfortunately, this is not the forum to comment on the better aspects of the proposal, but is instead the opportunity to focus on its inadequacies. Accordingly, NCOA is hopeful that its comments will be accepted in that context.

Loan Guaranty

The VA has recommended increasing the current one percent funding fee charged to veterans to 2.5 percent in hopes of offsetting the need for $389.8 million in appropriations. In the absence of legislation, the current and temporary one percent fee would expire on September 30. Additionally, the administration announces its intention to begin liquidation of loan assets at a more aggressive rate and to recommend legislation eliminating the fixed maximum interest rate on guaranteed loans. All three proposals can produce disasterous and expensive effects on veterans.

The administration has offered a plan to transfer the cost of the loan guaranty program to veterans who participate. Essentially, the administration perceives the fees currently charged to veterans as "user fees" and wants to raise those fees to cover the entire cost of the program. Thus fees paid by veterans who satisfactorily fulfill their loan obligations would offset guaranty losses suffered when a less fortunate veteran is unable to meet his loan commitment. Without appropriations the program becomes a veterans helping veterans program wherein the VA acts only as administrator. The fee increase would raise the cost of participation to $1,750 on a $70,000 home an increase of more than $1,000 over the current fee. Such an increase would price many veterans out of the housing market. Additionally, the increase, indeed the entire fee, does nothing to reduce the veterans indebtedness or increase the value of the home. For these reasons, Congress last year rejected a similar proposal to increase the funding fee. Instead, Congress adopted a resolution stating its collective belief that such a fee should not exceed one percent. NCOA urges the Committee to recommend budgeting and appropriations at sufficient levels to allow the current fee to expire, as its sponsors had intended, on September 30, 1987.

Allowing the funding fee to expire is fully justified when considering its cause--a cause which by coincidence relates directly to the sale of loan assets. Funding fees were initiated by Congress to help offset the need for massive appropriations to the VA's Loan Guaranty Revolving Fund (LGRF). The LGRF required appropriations because the income from its assets (interest earnings on loans in its portfolio) no longer exceeded its outlays (payoff on guaranties or aquisitions of properties in default). The deficit in income exists largely because prior presidential administrations discovered that the sale of loan assets produced income which could be used to reduce deficits and at one point ordered the VA to liquidate loans on such short terms that they could only be sold at a loss. This constituted poor management. Such poor management required Congress to authorize nearly $2 billion dollars between 1978 and 1986 to the program which required no additional authorizations between 1958 and 1978. It is estimated that $200 million would have been required to keep the LGRF solvent if portfolio assets had not been liquidated with a fire sale mentality. Now the Administration wants to sell more loan assets, some at substantial discounts below face value, at both the VA and other agencies. Such sales, as in the past, will provide short term and one time relief from budget deficits. But, like real property sales, airport sales, moving paydays and the sale of other assets they offer no long term solutions to spending deficits and exacerbate problems in the future by reducing income. This too, is poor management. Yet veterans are paying for this poor management in the form of funding fees on home loans. That is shameful. Accordingly, NCOA believes the sale of loan assets should be frozen temporarily. A review should be conducted to determine if a portfolio managed under new or modified rules could again support the LGRF alleviating the need for future appropriations before sales are allowed to continue. Such a review might provide long term alternatives to funding fees and loan guaranty appropriations.

Finally, the VA has announced its intention to recommend legislation which will eliminate the fixed maximum interest rate on guaranteed loans. While this proposal has no fiscal impact on the VA it can have a devastating impact on home buyers. The current maximum rate is established and adjusted under law by the Administrator to reflect current market trends. It is generally kept at the low end of the market scale for mortgage lending to assure somewhat universal treatment of veterans in home purchases. Taken together with the "point" limit it precludes situations where veterans may pay vastly different prices to finance homes of relatively equal value. This fixed rate also serves the nation as something of a benchmark with which commercial lending institutions must compete. In other words it keeps the mortgage lending rates competitively low--not artificially low as many allege. It is unlikely that veterans will be able to "negotiate" rates as the VA states. Instead, rates will continue to be set by individual institutions, not really subject to the kind of give and take the word negotiate implies. Furthermore, with no rate ceiling, or competitive mark, lending institutions will be free to set their own rules. For example, rates may be fixed at one level for 80 percent loans, at another higher level for 95 percent loans and a still higher level for no money down loans, a mainstay advantage in the VA loan guaranty program. Additionally, while the point limit may remain in law, there does not appear to be any method of preventing point shifting from the seller to the veteran by increasing the loan interest rate. NCOA firmly believes elimination of the fixed maximum rate would be extremely detrimental to veterans.

Compensation

The major provision included in the budget with regard to compensation programs for veterans and their survivor is the Administration's proposal for a 3.5 percent cost-of-living increase effective December 1. The budget proposal does not address any other significant changes in compensation programs.

NCOA fully supports the proposed cost-of-living increase and urges committee endorsement for supplemental funding to fund the compensation increase which became effective on December 1, 1986. Concurrently, NCOA urges the committee to review the adequacy of the Dependency and Indemnity (DIC) program. The association still believes the program should be restructured to more reasonably meet the financial obligations of government and the needs of survivors.

NCOA would also like to take this opportunity to endorse Representative Mike Bilirakis' bill and similar legislation allowing concurrent receipt of nondisability military retired pay and veterans' disability compensation. Under current law military retirees who are also disabled enjoy only the tax advantage of receiving disability payments while other veterans receive the full value of such compensation since only they are required to forfeit income from another source to receive disability payments. No other veteran, including federally employed or retired veterans, are required to forfeit pay or retired benefits to receive disability compensation. Thus, NCOA can see no reason to continue this unique discrimination against military retirees. NCOA extends its appreciation and commendation to Mr. Bilirakis on this issue and urges the committee to fund the bill this year.

Readjustment Benefits

The budget recommendation for readjustment programs in 1988 reflects the declining number of veterans eligible for training under the Vietnam era G.I. Bill and diminishing obligations in this area. Thus overall obligations in this account are expected to decline. Additionally, the VA has asked that funding for the New G.I. Bill be transferred to the Defense Department as an appropriations function of that agency. Unfortunately the proposal does not address other needed improvements in readjustment benefits.

NCOA does not support the transfer of funding obligations for the New G.I. Bill from the VA to DoD nor does the association subscribe to the underlying proposition that the New G.I. Bill is merely a recruiting program. As with previous G.I. Bills the stated purpose of the New G.I. Bill is "to provide a new educational assistance program to assist in the readjustment of members of the armed forces to civilian life after their separation from military service." And, like the Vietnam Era G.I. Bill and the Veterans Educational Assistance Program, the secondary concerns of encouraging young men and women to serve in the armed forces are listed among its purposes. Yet this program remains a veterans benefit, contained within that portion of law which describes veterans programs, administered by the Veterans Administration, created and reviewed by the Veterans Affairs committees under their jurisdiction and oversight authority. It is to NCOA clearly a veterans benefit producing a necessary and desired side effect of aiding armed forces recruiting and retention.

Transferring funding responsibility for this program would only encourage the Defense Department to manipulate the program to the disadvantage of veterans. During hearings on the program in its formulative stage, DoD consistently referred to the program as a "force management tool" and recommended many ways of using education benefits to selectively recruit and retain members of the armed forces. DoD even suggested the use of a trigger mechanism to allow service secretaries the opportunity to turn the G.I. Bill on and off to address force management objectives. Fortunately Congress recognized that a true G.I. Bill was too inflexible in its objectives to accomplish these force management requirements as effectively as bonuses, training assignments, etc. Mindful of recruiting needs, Congress masterfully crafted a program which encouraged military service but primarily fulfilled the education and readjustment need of veterans. Yet, last year, DoD recommended termination of the program before the end of the test period and DoD has already suggested a cut in program benefits this year. NCOA does not believe DoD would sustain the program if tasked with its funding. Accordingly, NCOA opposes the transfer.

In the budget proposal the VA failed to address any improvements in the New G.I. Bill or other existing readjustment programs. For example, education benefits under the Vietnam Era G.I. Bill and the vocational rehabilitation program have not been increased since October 1, 1984. At that time, Congress provided an increase of ten percent over rates set in 1981. As a result, the value of these important readjustment and rehabilitation benefits have diminished substantially. Since 1981 the cost of a 4-year education at a public institution has risen 56 percent according to the Department of Education while VA payments have risen only 10 percent. Concurrently, Congress has appropriated billions of dollars in non-veteran education programs creating a G.I. Bill without the G.I. NCOA urges the committee to include an increase in these veterans' programs in its budget request.

Finally, in this category, NCOA encourages the committee to include funding in its budget request to make necessary improvements in the New G.I. Bill. NCOA continues to support elimination of the enrollment fee for users of the New G.I. Bill but asks, at least, that funding be provided to allow refunds to individuals who do not use their benefits, who must disenroll for financial reasons or to the survivors of those who die prior to enrollment. NCOA also recommends funding to make eligible and pay benefits under the new program to Vietnam era veterans who must retire from military service prior to June 30, 1988. Federal law and military regulations will prevent many career servicemembers from completing the required three years of service to become eligible for benefits under the new program, but they no longer have the time to fully use their old G.I. Bill benefits before the expiration of that program. In the interest of equity, such a change should be made.

Burial Benefits

At one point in time every veteran could count on collecting one benefit of service in the Armed Forces-- a burial benefit paid by the VA and a flag to cover the casket in honor of service. Sometimes these benefits make a decent burial better, too often they made a decent burial possible. Now only disabled, and in some cases, indigent veterans are eligible for burial benefits. The last vestages of universal reward for veterans manifests today in the plot allowance and the burial flag. Now the VA seeks to eliminate the plot allowance for non-disabled veterans who are not interred in national cemeteries. NCOA urges the committee to reject this proposal and sustain the $31.3 million appropriation necessary to provide this benefit. NCOA might be more inclined to support this legislation if every veterans had reasonable access to a national cemetery, but until that is the case no consideration can be given to this proposal.

Additionally, NCOA is pleased to recommend that funding be included in this year's budget and legislation be enacted to allow the VA to provide burial flags to the members of the National Guard and Reserves. These citizen soldiers, sailors, airmen, and Marines contribute significantly to the National Security and defense interests of the United States. This token reward for such service would be deeply appreciated.

Medical Care

Notwithstanding a proposed $414.1 million increase in spending for medical care in 1988, NCOA senses an inadequacy in the proposal. Immediately obvious is a realization that the loss of 3,810 full-time employees, two percent of the medical care workforce, will adversely affect the availability or quality of medical care to veterans. Furthermore, NCOA does not understand how the VA can project a decrease of 10,000 inpatients and 113,000 out-patient visits in view of the needs of an aging veterans population. This, in fact, is probably the greatest omission in the budget. For yet another year the Veterans Administration has largely ignored the need to develop an implement an aggressive nursing and geriatric care program for the aging veteran population. The proposed cut of $400 thousand from state home funding grants is a clear indication that the Administration lacks the far sighted policy needed to adequately address this issue.

The one percent efficiency increase the agency announces will save money and staffing is a laudible goal. Yet such savings should be used to build the system to meet its current and anticipated needs, not to meet the budgeting objectives of OMB. For example, the VA has pending proposed regulations to eliminate beneficiary travel payments for almost all veterans except those who require a special mode of transportation. The proposal has caused tremendous turmoil among veterans and works in direct contravention to recently announced outreach effort to homeless veterans. It is even more inconsistent with the VA's current emphasis on providing medical care only to those veterans who cannot afford alternate sources of care. Yet rather than seek a reprograming of $75 million in medical care funds, only part of which would be necessary to fund beneficiary travel, the VA has requested a recision. Rather than redirect part of its one percent efficiency savings, the VA requests a reduced budget.

Consistent throughout the budget request is a lack of future. There is no acknowledgement of the national emergency role of VA medical facilities; there is no obvious planning for the treatment of aging veterans; there is no anticipation of any out year needs. The budget is in fact as short-sighted as the sale of assets suggested to offset the funding needs of other programs.

The President's budget message clearly stated the Administration's objective to reduce real spending for veterans medical care by $100 million in the coming fiscal year. This is obviously a regressive move on the part of the Administration which should not be sustained by Congress. NCOA urges the committee to increase medical care spending to at least a current services level or, more desirably, to a level which allows real growth in the program.

Staffing

A substantial portion of savings recommended in the VA budget is attributed to cuts in full-time equivalent employees (FTEE). However, these cuts are largely undefined in the budget. The VA simply states an anticipated one percent efficiency reduction will save 1,900+ FTEE in the Department of Medicine and Surgery (DM&S). A further cut based on a reduction in the level of current services to veterans is expected to rob DM&S of 3,800+ FTEE. In the Department of Veterans Benefits (DVB) a 250+ FTEE loss is loosely attributed to the decline in application for services from Vietnam era veterans. Yet, nowhere in the budget are these cuts defined by job category or occupation. Who are these people? Are they doctors, nurses, physical therapists, food service technicians? Does their loss reduce staffing ratios or prevent good patient care? Will the loss of DVB personnel affect the new outreach efforts to homeless veterans or a growing need for service to veterans applying for benefits under the New G.I. Bill?

These question create still more questions about staffing levels. NCOA does not know how many doctors, nurses and physical therapists are required to adequately staff an 84,000 bed medical care system but neither is the association convinced that the VA knows. NCOA does know that it takes four months or more to have the results of disability physicals transcribed and sent from medical centers to regional offices in some areas. NCOA knows that other requests for services languish for considerably longer periods. Under such circumstances staffing cuts seem an unlikely solution to budgetary savings. Instead NCOA recommends that some effort be devoted to assessing the personal needs of the agency to determine adequate staffing in a manner consistent with its mission and size. Until such time as real staffing needs are known and proposed cuts in personnel are defined, NCOA cannot support any FTEE reduction.

Conclusion

At the outset NCOA stated its general support for the proposed budget and we reiterate that position now. However, NCOA also supports the improvements in loan guaranty benefits, readjustment benefits, burial benefits, compensation and medical care recommended herein.

We also note for the committee that a disturbing trend of cost avoidance seems to be building in VA budget requests. As noted earlier, the VA wants to transfer the cost of the New G.I. Bill to DoD and has deleted research funding in favor of DoD and the Department of Health and Human Services funding for programs. The VA seeks to transfer the cost of the loan guaranty program to its veteran participants and concurrently wants to allow the investment community to gratuitously profit from loan sales and elimination of fixed maximum interest rates. In past years, the VA has sought, successfully, to divest itself of responsibility for health care of a large segment of the veterans community by transferring that cost to veterans who will now pay higher insurance premiums. And, the VA has ignored the need to keep other major programs current to the needs of veterans and their survivors as is the case in education and rehabilitation programs.

Essentially, the VA seems to be divorcing itself, little by little, from the constituency it is designed to support. NCOA can only wonder if this is not building to a point when someday all servicemembers will be contributing from their monthly pay to support veterans benefits or if there will be any benefits for those who serve their nation. This trend must stop before it becomes impossible to rebuild the agency to the level of support necessary for veterans' programs. Anti-war activists of the sixtys used to ask, "What would happen if we had a war and nobody came?" As services to veterans continue to erode, they may have their answer.

-end-

Written Testimony
to the Committee on Veteran's Affairs
U.S. Senate
Submitted by Jack Paulson, President
California Association of REALTORS®
February 17, 1986

As President of the California Association of REALTORS®--a statewide trade association representing 115,000 real estate licensees in California--I am grateful for the opportunity to present our perspectives on the impact of the Veterans Adminstration proposals contained in the President's fiscal year 1988 budget, as well as on other important issues confronting VA home mortgage program. This commentary is submitted in conjunction with, and in support of, the testimony presented by the National Association of REALTORS®. The business activities of our membership involve the brokerage of real property as well as assisting buyers in the process of locating financing sources. It is this business thrust of our members and their involvement with government housing agencies such as the Veterans Administration that motivates C.A.R.'s active interest in these issues of vital concern to California's homebuying veterans.

I. Introduction

Nineteen-eighty-six proved to be one of the most turbulent years that the VA has experienced since its inception in 1944. Lending activity reached record levels as the agency guaranteed 307,747 loans nationwide, of which 37,928 were made in California. The total dollar volume came to $22 billion, up 194 percent from 1985. However, not only did the agency experience a surge in demand for its services, but concomitantly it came under sharp attack by forces seeking to curtail its effectiveness in providing affordable mortgage credit to veterans. C.A.R. is deeply concerned over efforts to restrict or reduce the agency's ability to assist veterans seeking housing. The VA is a vital agency from which veterans receive much needed assistance, and many recently proposed alterations to the programs would substantially reduce the affordability and availability of home financing, preventing thousands of veterans from achieving the dream of homeownership.

In conjunction with the FHA home mortgage program, the VA's program has played an important role in assisting the California homebuyer. As private lenders and secondary market investors have substantially tightened underwriting guidelines over the past year and a half, the FHA and VA programs have stepped in to provide thousands of homebuyers the only viable source of affordable mortgage credit. According to C.A.R. data, the FHA/VA share of newly-originated first mortgages in California increased from 16 percent in 1984, to 20 percent in 1985, to nearly one-quarter in 1986, despite the statutory loan limits that restrict the usage of FHA/VA mortgages in the high cost California market.

The state's high home prices have consistently outpaced the rest of the U.S. home prices for the past 15 years, and by the end of 1986, the median price for a house in California was 60 percent higher than the nationwide median. These high home prices have sharply boosted income and downpayment requirements, making homeownership extremely difficult for California veterans, particularly first-time buyers. In

1986, fully 56 percent of all newly-originated VA loans in California went to first-time buyers, while nearly 40 percent of VA borrowers relied on the program's no-downpayment feature. The median loan-to-value ratio on new VA loans in 1986 was nearly 97 percent. VA borrowers also took advantage of interest rates that were 0.75 percent lower than on conventional loans. In addition to the higher cash demands, the typical veteran homebuyer faces a lower cash inflow. The median income for the VA buyers in California was $13,000 less than for buyers using conventional financing.

These statistics clearly indicate the vital role that the VA loan guarantee program serves in assisting California veterans achieve the dream of homeownership. Given the fundamental importance of the VA program, C.A.R. is extremely concerned about proposals contained in the President's FY 1988 budget that would severely impair the viability of VA home mortgages in the California market place. In addition, the Association would like to take this opportunity to comment on other recent proposals and issues affecting VA loan guaranty program.

Newly-Originated Conventional vs. VA Mortgages: 1986

Characteristic	Conventional	VA
Median Interest Rate	10.25%	9.5%
Median Loan Amount	$118,020	$103,000
Median Sales Price	$149,997	$107,000
Median Downpayment	$30,800	$5,000
Median Loan-to-Value Ratio	79.9%	96.6%
Proportion of First-Time Buyers	34.5%	56.1%
Median Annual Household Income	$52,900	$ 40,000

II. FY 1988 Budget Issues

A. Loan Guaranty Fee Increase

A key element in the Administration's budget "blueprint" for FY 1988 is a proposal to impose sharply higher guaranty fees on the Veterans Administration's loan guaranty program. The current one percent origination fee for VA loans technically sunsets at the end of the current fiscal year. The Administration's budget proposes legislation that would more than double the guaranty fee in FY 1988 to 2.5 percent --one half percent higher than the Administration's budget proposal last year. Although current budget documents do not call for further out-year increases, C.A.R. expects that future proposals could increase this fee to 3.8 percent by 1990.

This fee increase would negatively impact more than 40,000 veteran homebuyers in California that will depend upon the VA to achieve the dream of homeownership in 1988. For the typical California veteran the guarantee fee increase would amount to over $1,500, forcing monthly payments up by $12 or more. The resulting "tax" on California's veteran homebuyers would amount to approximately $65 million in FY 1988, based on VA's projection of loan activity and assuming California maintains its market share of VA loans at 12.5

percent. A further impact of the increase would be to further squeeze many marginally qualified veterans out of the market. For those veterans remaining in the market, the fee increase will enlarge their debt burden if the fee is financed or force them to go into debt with less cash reserves for emergencies if they choose to pay this increase up front.

Clearly, the impact of the proposed fee hike in the California market would be severe, and thus C.A.R. adamantly opposes any attempts to increase the fee beyond it's current level. Rather, C.A.R. endorses a long term extension of the current 1 percent guarantee fee. A long term extension would reduce the uncertainty that a veteran planning to buy a home faces when calculating the financial strain of homeownership. Moreover, it would have the positive consequence of making the VA less subject to political forces regularly seeking fee increases that only minimally enhance the Administration's deficit reduction priorities. The VA program is an entitlement program, one that was conceived in the spirit of recognition, honoring the sacrifices of our nation's veterans. It should not be used as a tool to help reduce the budget deficit.

B. GNMA Fee Increase

C.A.R. would also like to express its vehement opposition to administrative efforts to increase the GNMA guarantee fee from 6 basis points to 10. This higher fee is purportedly necessary to boost GNMA's reserve fund, but by most estimates GNMA's reserves are more than adequate--in 17 years the agency has suffered losses of only $10.6million, and currently maintains reserves in excess of $1.35 billion. This unnecessary increase will actually only serve to further restrict the availability and affordability of VA loans. It has been estimated that this fee hike will result in an increase of $189 on an average VA loan of $65,000 - $70,000. If the analysis is extended to the California market where the median VA loan exceeds $100,000, this increase would amount to approximately $230.

In addition to forcing increased costs on veteran homebuyers, the fee increase will also squeeze profit margins for lenders, forcing some to reduce VA lending activity or withdraw from the VA market altogether. The Mortgage Bankers Association notes that not all of the cost will be passed along to the veteran because of competition, and the larger the proportion that the lender must assume, the greater the incentive for the lender not to write VA loans. On the other hand, if the majority of the cost is passed on to veterans, the GNMA fee increase would add another $8-$10 million to the tax imposed on veteran homebuyers.

Again, C.A.R. opposes this attempt to raise revenues through taxes on America's homebuying veterans, and we recommend that Congress roll back the proposed GNMA fee increase. Furthermore, the Association believes that any future proposed increases be subject to legislative approval. It is imperative that these policy changes be open to public scrutiny and comment.

III. Negotiated VA Interest Rate and Points

C.A.R. advocates proposals that would repeal the requirement that the Administrator of Veterans Affairs establish the maximum interest rate for VA guaranteed loans. C.A.R. believes that interest rates and discount points on VA loans should be negotiated between the veteran buyer and seller. In recent years, C.A.R. has received numerous reports during 1986 that temporary run-ups in mortgage rates have substantially reduced the attractiveness and affordability of VA financing.

Unlike the FHA program, the maximum interest rate on VA loans is still administratively set, and therefore movements in this ceiling rate frequently lag market rates. Last year, the VA reduced the ceiling to 9.5 percent on March 3, and shortly thereafter market interest rates temporarily showed a significant increase. As a result, discount points charged by lenders to bring VA loan yields up to market levels fluctuated from an "acceptable" level of about three points to over seven points in some markets. Moreover, because the veteran borrower was limited to paying no more than the one point origination fee in most cases, the sellers were forced to make up the remaining five or more points. This situation has, on occasion, put prospective veteran buyers at a significant disadvantage in the market place, as sellers tend to be extremely wary of buyers using government-backed financing. The rapid run-ups that are common in today's volatile interest rate environment will continue to periodically restrict veteran homebuyers as long as the administratively set ceiling remains in effect.

Lender experience with freely negotiable rates and points on FHA loans generally has been positive, and has minimized the need for sellers to "cover" uncertainty over points in the price of the house. A similar freeing of rates and points on VA loans would provide for greater flexibility in the VA loan guarantee program and would greatly enhance the program's effectiveness.

IV. Other Issues

C.A.R. would like to take this opportunity to express its views and concerns on issues that the VA has not cited for commentary, but because of their significant impact on the efficacy of the VA in meeting veterans housing needs, should be submitted for the record.

A. Loan Guaranty Amount/Credit Authority

C.A.R. would also like to voice its support for legislation such as S.9 that would increase the VA loan guaranty limit from the present level of $27,500. This increase would dramatically improve the effectiveness of the VA program in high cost areas such as California. Currently, only 30 percent of existing homes sold in California were priced at or below the current no-downpayment VA loan maximum of $110,000. An increase in the VA loan guaranty to 36,000, as proposed in S.9, would boost the maximum VA loan amount to $144,000, thereby allowing the VA program to serve approximately 53 percent of the California resale market, vastly improving the VA program's effectiveness in California.

C.A.R. would also like to express its support for measures such as S.9 that would release the VA from the Gramm-Rudman sequestration process. Reducing the VA's exposure to those who wish to use the VA program as a "political football" would have the positive effects of reducing the number of shutdowns the VA would have to undergo. The V in 1986 was threatened three times with shutdowns when it reached i-credit limit. Given expectations of continued strong demand for VA loans, the severity of the Gramm-Rudmann process places the VA under the threat of shutdown again in FY 87-88.

B. "Automatic Lender" Loan Declinations

In a recent letter to the VA, C.A.R. commented on two recent changes to VA underwriting guidelines:

1. Revised the minimum residual income standards from a state-be-state minimum to a regional minimum.
2. Introduced a ratio of total monthly obligations to gross earnings, which generally should not exceed 41 percent.

The VA has emphasized that both the guidelines must be considered in the loan approval process, and that these new steps are guidelines only, not automatic reasons for approval or rejection. However, C.A.R. is concerned that lenders will adhere strictly to the new debt-to-income ratio and will be reluctant to approve any loans exceeding the 41 percent debt-to-income guideline, even if compensating factors do exist. Moreover, many other lenders have also substantially tightened their underwriting criteria for VA loans over and above VA's minimum requirements. As a result veteran homebuyers are likely to face more stringent qualifying criteria in the future.

Due to the severity of some lender's guidelines, C.A.R. feels that veterans should have recourse to seek loan approval by other "automatic" or prior approval VA lenders without being "penalized" by having to reapply and pay loan application fees a second time. Thus, C.A.R. has recommended that the Veterans Administration establish an appeals process for veterans who have been denied a VA loan by an "automatic lender" on the basis of underwriting criteria.

C. Negotiable Appraisal Fees

C.A.R. recommends that the VA should let appraisal fees be negotiated and settled at the market rate rather than having the VA fix rates. C.A.R. submits this proposal due to the significant processing delays experienced by veterans seeking a VA loan stemming from this restriction. The VA cannot compete with conventional lenders who can outbid the agency for the appraisers' services. Thus, the VA loans are given lower priority by appraisers, resulting in substantial delays during periods of high activity. That put veterans at a substantial disadvantage in the homebuying process.

V. Conclusion

C.A.R. wishes to thank the Committee for the opportunity to present its views on these issues of vital importance to the VA homebuyer. To reiterate, the VA plays an important role in California's housing market, ensuring that California veterans have a source of affordable mortgage credit. C.A.R. firmly opposes measures such as the VA and GNMA guaranty fee increases which impose financial hardship on families. These measures are proposed under the guise of reducing the federal deficit, but amount to tax on the entitlements of our nation's veterans.

Rather than crippling the VA program through sharp fee increases as the FY 1988 budget proposes to do, C.A.R. strongly supports following program enhancements:

- Rollback of GNMA fee increase, and require that further fee increases be subject to Congressional approval
- Long term extension of 1 percent guarantee fee
- Exemption of the VA loan guaranty ceiling from Gramm-Rudman sequestration
- Increase in loan guaranty amount
- "Automatic lender" loan reassignment
- Negotiable interest rates, points and appraisal fees on VA loans

Again, C.A.R. appreciates the opportunity to submit these comments to the Committee. We urge that the concerns raised in these comments be adequately addressed in the Committee's final legislation. The Association would be happy to provide any additional information that the Committee might need. Please contact the Department of Planning, Research and Economics at C.A.R. Headquarters at (213) 739-8669.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

MAR

March 26, 1987

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In your letter of March 11, 1987, you requested that CBO comment on several issues raised in the February 18 and 19 hearings of the Committee on Veterans' Affairs. Our response is given below.

1. The Administration's fiscal year 1988 budget proposes the sale without recourse of $900 million of assets from the VA's loan portfolio, including vendee loans, over the three-year period of fiscal years 1988, 1989, and 1990.

   A. Will the savings the Administration hopes to realize by transferring the risk of default exceed the reduction in the sales price that is virtually certain to result from selling the loans without recourse?

Response: Loans sold without recourse would have a lower price than those sold with federal guarantees. Until the loans are actually sold, however, no one knows whether the price reduction will be more or less than the present value of expected default losses. One frequently-voiced view is that initial bid prices may be cautiously low because of the absence of market experience with loan sales of this type, but that over time the discount should approach the present value of expected losses from defaults. If the price discount equals the expected loss, the government would neither gain nor lose on the transaction, but it would be forced to finance expected losses at the time of sale rather than in the future.

If, on the other hand, private investors cannot manage and service the loans more efficiently than the VA, the price discount may continue to exceed the cost of defaults, because private investors would be expected to bid prices that would include a profit on their investment. These profits would, in this case, represent losses of the government on the loan sales. Alternatively, improved servicing of vendee loans by private firms may enable them to increase the rate of return on the loans above that which would be experienced by the VA. With a sufficient

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increase in the rate of return, bids on the loans could be low enough to accommodate a return on the bidder's investment and still be high enough to more than cover the lower rate of return that the VA would be likely to achieve by holding the loans.

B. Can vendee loans sold without recourse be put in loan pools backing GNMA securities?

Response: No. Only federally insured or guaranteed mortgages are eligible for inclusion in pools backing GNMA-guaranteed securities. (See section 306(g)(1) of the National Housing Act.)

2. The Mortgage Bankers Association of America (MBA), in its written testimony, proposed that the authority for VA foreclosures be delegated to the lenders. Specifically, the MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to the MBA, the VA would monitor lender performance to ensure the integrity of the process. What are your views on the proposal?

Response: There are several aspects of this proposal that could affect spending for the Loan Guaranty program.

- If private lenders could process the VA paperwork for foreclosures faster than it can be prepared by VA staff, the cost of foreclosures both to the VA and to the lenders would be reduced. However, when rising default rates are causing backlogs for VA staff, lenders are usually experiencing similar backlogs for the same reason. Thus, it is not clear that foreclosure procedures could be sufficiently expedited by this change to significantly reduce costs.

- While it might be assumed that transferring these activities from VA staff to the lenders would reduce the administrative costs of the Loan Guaranty program, this would not necessarily be the case. The VA would have to monitor carefully the paperwork prepared by the lenders to ensure compliance with the law; and the cost of this monitoring could be nearly as great as the cost of preparing the paperwork in house.

- Since this proposal is prompted by the concern of lenders regarding the increase in the number of foreclosures in which the VA refuses to bid on the securing property, the potential for lender-bias in the determination of the VA bid position should not be ignored. Some of the variables that enter into the formula to decide if, and what, the VA should bid at a foreclosure auction are based in part on the judgement of the VA Loan Guaranty Officer. Since the lending institutions have a financial stake in the outcome of the formula calculation, it may be unreasonable to expect their judgement in setting the variables to be completely objective. Should the determination of bid positions and prices be calculated in a manner more advantageous to lenders, the cost to the VA could be substantial.

If the Committee has additional questions on these issues, please call me or have your staff contact Kathleen Shepherd (226-2820).

With best wishes,

Sincerely,

James Blum

for Edward M. Gramlich
Acting Director

cc: Honorable Frank H. Murkowski
Ranking Minority Member

U.S. Department of Labor

Assistant Secretary for
Veterans' Employment and Training
Washington D.C. 20210

March 18, 1987

The Honorable Alan Cranston
Chairman, Committee on Veterans'
Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This is in response to your letter of March 9 raising questions in follow-up to your Committee's February 18 and 19 hearings.

Your questions and our responses are as follows:

The Disabled American Veterans (DAV) testified before the Senate Subcommittee on Housing and Urban Affairs on January 29, 1987, that the Department of Labor (DOL) contacted the DAV in only 3 of 10 DOL regional offices to assist in the "Jobs for Homeless Veterans" project.

Question A. Is the DAV testimony correct?

Answer: Our records show that the DAV had been contacted in at least six of the JHV project targeted cities by the end of January 1987: Boston, Detroit, Denver, Fort Lauderdale, Los Angeles and New Orleans. Recently contacts have been made with the DAV in Seattle, San Antonio and Atlanta.

Examples of current participation by the DAV in JHV include:

Detroit. The DAV meets regularly with the DOL-chaired Local Working Committee (LWC) for the homeless program. The DAV also has assumed the responsibility to counsel individual homeless veterans in one of Detroit's shelters.

Los Angeles. The DAV meets with the LWC at its regular meetings.

New Orleans. The mayor's office supervises the JHV grant and the DAV has a representative on the Mayor's Task Force for Homeless People. The mayor has personally represented the JHV program to all the veterans' organizations participating in the homeless project.

Fort Lauderdale. This program involves almost daily contact with the DAV in the JHV program. Such contact began with an offer in September 1986 by the DAV to provide money vouchers to veterans involved in JHV where financial help is necessary.

San Antonio. The Texas Employment Commission, the JHV grantee, reports that the DAV is part of the G.I. Forum, a resource for outreach and support services.

Atlanta. The DOL State Director for Employment and Training Services has been invited to discuss the JHV program at the Georgia DAV Spring Conference this year.

Denver. The DAV is represented in the G.I. Forum, a subgrantee for the JHV program. The DAV and other veterans' groups provide financial assistance to homeless veteran JHV clients.

Question B. Please describe in detail your efforts to involve veterans' service organizations generally in the program.

Answer: A number of initiatives have been taken to involve veterans' organizations in the JHV program both in Washington and in the field:

1. Major national veterans' organizations have been participants in the JHV program at every stage of its development, from the study stage in the spring of 1986, through its refinement and adoption in May of 1986, to its current status. The veterans' organizations involved are: AMVETS, The American Legion, Disabled American Veterans, Vietnam Veterans of America and Veterans of Foreign Wars.

2. In September 1986 a detailed briefing of the demographics and characteristics of homeless veterans was made to these national organizations and the approach to administering the JHV program was discussed, along with suggestions for veterans' organizations' participation.

3. Local Working Committees (LWC) of the JHV programs in each of the cities have been directed to contact and involve local veterans' organization chapters and service officers. Where names were supplied by the national offices of the veterans' organizations, the local State Directors for Veterans' Employment and Training Service have been told who to contact to get local cooperation.

4. While the nature and the scope of responses for help from these groups have varied from city to city, the pattern described in answer to your first question has emerged and we are sharing descriptions of these experiences and urging experimentation with this kind of assistance in all the JHV cities.

5. Both my staff and I have made presentations to the national and local veterans' organizations when requested. For example, we described our program in detail, along with the suggestions for local participation, to two American Legion Commissions at their annual meetings in Washington this winter. The American Legion's Washington, D.C. office has invited the DOL to make recommendations for specific guidelines for the Legion's local chapters to participate in local initiatives to help homeless veterans.

6. Finally, it is encouraging to note that all five of the major veterans' organizations mentioned here have adopted resolutions in their programs urging support for homeless veterans' programs across the country.

If you have any further questions, please let me know.

Sincerely,

Donald E. Shasteen

DONALD E. SHASTEEN

cc: Honorable Frank Murkowski

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6507

March 19, 1987

The Honorable Alan Cranston
Chairman
Committee on Veterans Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

On March 9, you asked for some additional information from the Mortgage Bankers Association in connection with the hearings held by the Committee on Thursday, February 19, on the Fiscal Year 1988 Veterans Administration Budget.

I am pleased to enclose the following responses to the questions asked of us.

1. "In your written testimony (page 3), you state that, with respect to vendee loans, the VA should make "the best deal possible" when selling properties it has acquired under the loan guaranty program. What specific improvements do you propose in existing and planned VA policies and practices regarding the VA's sale of properties?"

   There are several widely espoused recommendations to improve VA's performance in selling VA-acquired properties. These recommendations include listing properties in a more timely manner in order to eliminate any lag between the time the properties become available and the time that buyers become aware that these properties are on the market. In addition, there should be more outreach efforts to realtors to maximize exposure for VA-acquired properties. Improved communications between realtors and VA staff could lead to greater realtor knowledge about the properties. Property descriptions and details such as those used for private listings would greatly accelerate realtor showings of the property because of the time saved by the realtor in not having to check out the property from merely an address listing. Finally, there should be further examination of the auction method for selling properties.

2. "What percentage of new conventional mortgages and new FHA mortgages were adjustable rate mortgages in 1986?"

   Adjustable rate mortgages (ARMs) as a proportion of conventional and FHA loans closed in years 1982 through 1986 are as follows:

ARMs As A Proportion of Loans Closed

	Conventional[1]	FHA[2]
1986	29.9%	0.8%
1985	50.5%	0.1%
1984	62.0%	--
1983	40.3%	--
1982	40.5%	--

1/ Source: Federal Home Loan Bank Board
2/ Source: Federal Housing Administration - Fiscal Year Basis

Borrower preference for ARMs is closely related to interest rate levels for fixed-rate mortgages as well as to the difference between fixed and adjustable rates. An increase in either the fixed interest rate or in the spread between fixed and adjustable rates increases the likelihood that a borrower will choose an ARM. The strong preference for ARMs in the 1980s correlates with the high long-term rates and relatively large spread between short- and long-term interest rates that characterized this period. In general, when mortgages become less affordable, borrowers choose ARMs.

3. "In your written testimony (page 8), you urge that quotas limiting the number of vendee loans which can be made to purchasers of properties acquired by the VA should be eliminated. If, as you recommend, all statutory quotas are eliminated, are you not concerned that the Office of Management and Budget might require the VA to reduce the number of vendee loans it makes to well below the current 60 percent level or even the proposed 40 percent level?"

If statutory quotas on the number of vendee loans the VA can make are removed, the possibility does exist that the Office of Management and Budget could dictate how many sales had to be financed by vendee loans. The intent of our recommendation is that a VA determination to make a vendee loan should not be based on an arbitrary quota, but rather on a case-by-case basis. If Congress eliminates statutory quotas, it should make it clear that the VA should use vendee loans as fully as it deems necessary to facilitate the sale of VA-acquired properties. The VA should have as much flexibility as possible in the use of vendee loans. Most vendee loans are made on foreclosed properties in economically depressed areas of the country where, because of market forces, private lenders are reluctant to provide financing without a downpayment. Because the VA field office can adjust the downpayment requirement on a vendee loan to what the market will bear, the likelihood exists that the property will be sold more quickly with a vendee loan.

We appreciate the opportunity to furnish this additional information and stand ready to assist you in any other respect.

Sincerely,

Burton C. Wood

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

Mortgage Bankers Association of America

Burton C. Wood
Senior Staff Vice President
and Legislative Counsel
202-861-6507

March 25, 1987

The Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to submit the following comments in connection with the hearings held by the Committee on February 18-19, 1987, on the Fiscal Year (FY) 1988 Veterans Administration's Budget.

MBA supports the concept of S 477, the "Homeless Veterans' Assistance Act of 1987" and thinks its goal is a worthy one. It is unconscionable that men and women who have served this country in the armed services should go without shelter.

The proposal to use VA-acquired properties for housing homeless veterans deserves a full exploration. As a new concept, MBA urges that the particulars of any legislative measure be examined thoroughly, particularly with respect to the impact on the home loan guaranty program. As the committee is well aware, the loan guaranty program has come under attack in recent years.

The Loan Guaranty Revolving Fund (LGRF) has required appropriations in recent years, because its losses are no longer covered by revenues from VA direct loans. Congress should look very carefully at whether the transfer of VA properties will exacerbate the losses to the LGRF by foregoing revenue.

Because the authority given to the VA under the proposal to transfer properties would be discretionary, MBA believes that appropriate inventory to be used are those properties that are determined to be hard-to-sell (little or no resale value). It is MBA's understanding that the VA has an inventory of 21,000 properties. Determination of which of these properties are hard-to-sell should be closely regulated. It is very likely that the hardest-to-sell properties are those owned by lenders because of a no-bid by the VA in a foreclosure sale of a property securing a VA-guaranteed home loan. The VA should rethink its no-bid policy in cases where properties, instead of winding up in the hands of lenders, could be available for homeless veterans in areas where need for shelter is the greatest.

In addition, to forestall the problem of resales at a profit by the transferees, the transfers should be made only to recognized and responsible groups. There should be language clarifying who benefits from a sale of these properties in cases where the properties subsequently appreciate in value. As far as practicable, both the VA and the homeless group should recoup their costs of acquiring the property (and other costs associated with the property, such as improvements) from the proceeds of a sale.

We would be pleased to work with the Committee, as well as the VA to help ensure that any program adopted be as efficient as possible.

Sincerely,

Burton C. Wood

REALTOR®

NATIONAL ASSOCIATION OF REALTORS®
William M. Moore, President
Nestor R. Weigand, Jr., President-elect
Ira Gribin, First Vice President
William D. North, Executive Vice President
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August 27, 1987

The Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Mr. Chairman:

On behalf of the NATIONAL ASSOCIATION OF REALTORS®, I am pleased to respond to your March 9, 1987 letter requesting additional information concerning the Veterans Administration's home loan guaranty program.

VA Loan Guaranty Revolving Fund

The NATIONAL ASSOCIATION OF REALTORS® opposes any proposal to increase the one percent funding fee currently imposed on VA-guaranteed home loans, however, as stated in our testimony, we are concerned for the financial viability of the VA's Loan Guaranty Revolving Fund. The NATIONAL ASSOCIATION OF REALTORS® believes that the key to re-establishing the viability of the VA fund is to operate the program more efficiently and to better utilize the program's existing resources. Proposals that raise the veterans cost to use the program only result in rendering the VA entitlement less useful.

The NATIONAL ASSOCIATION OF REALTORS® believes that the Committee's bill should demand that the VA better utilize its own existing resources. For example, the NATIONAL ASSOCIATION OF REALTORS® strongly supports a provision that would make greater use of VA's acquired assets by utilizing an aggressive marketing program in conjunction with local real estate agents. We believe that such marketing will result in a higher and quicker level of sales thus reducing the VA's maintenance and marketing costs which are funded by the loan guaranty revolving fund.

Secondly, the NATIONAL ASSOCIATION OF REALTORS® continues to urge the Committee to reject the Administration's mandate that VA continue to sell its vendee loan portfolio. Historically, the VA's portfolio provided a constant source of interest income to the loan guaranty revolving fund. While the majority of these loans have been sold, we believe that continued sale, and particularly on a non-recourse basis only exacerbates the financial problems of the loan guaranty revolving fund.

REALTOR® is a registered collective membership mark which may be used only by real estate professionals who are members of the NATIONAL ASSOCIATION OF REALTORS® and subscribe to its strict Code of Ethics

The NATIONAL ASSOCIATION OF REALTORS® also encourages actions to allow mortgage lenders to operate with greater independent authority under the VA program. The VA should be enabled to delegate those responsibilities that can be performed by the private sector. For example, we would favor a provision to allow VA-appraisers to return their appraisal reports directly to a VA-approved lender, rather than to the VA, for determination of the property's reasonable value.

VA Appraisal Process

The NATIONAL ASSOCIATION OF REALTORS® favors the establishment of a direct-appraisal system for the VA home loan guaranty program. Under the program, VA-designated fee appraisers (assigned by the VA on a rotating basis from the VA fee panel) would return their appraisal reports directly to VA-approved lenders, who would be responsible to determine the property's reasonable value.

Under the proposal, the Veterans Administration would continue to assign its own approved appraisers, however the lender, and not the VA would be responsible for reviewing the completed appraisal report, a responsibility that includes assuring the quality of the appraisal report, and determining the reasonable value of the property.

The effect of not providing this authority is clear. The tremendous loan volume experienced in every sector of the mortgage market during the past year was especially crippling to the VA program, which simply could not perform enough appraisals to keep up with the demand. As a result, it was not uncommon for the processing of such appraisal requests to be severely delayed. Some of our members reported delays up to four months. In comparison, the FHA Direct Endorsement Program, which does allow lenders to review FHA-conducted appraisal reports, was better able to cope with the processing crisis.

The VA direct-appraisal program, as previously proposed, does differ from the appraisal process authorized by the Department of Housing and Urban Development's FHA Direct Endorsement Program. Like the VA proposal, Direct Endorsement lenders may request that the FHA assign an appraiser from the FHA fee panel to perform an appraisal for an FHA application. Also like the VA proposal, FHA lenders are authorized to review the appraisal reports performed by FHA fee-appraisers. Unlike the VA proposal, the FHA may also authorize lenders to maintain appraisers on their own staff, approved to perform appraisals for FHA applications.

Disposition of VA Properties

The role of the NATIONAL ASSOCIATION OF REALTORS® is to facilitate the development of the program through staff and financial support. The NATIONAL ASSOCIATION OF REALTORS® staff also maintains a continuing liaison with VA headquarters staff and provides then with any necessary assistance. The

NATIONAL ASSOCIATION OF REALTORS® staff also assists the REALTOR® program chair, the Boards of REALTORS® staff, and members in implementing the program. The Association is also responsible for maintaining regular communication with the demonstration sites.

The role of the VA is to encourage, promote, ~~and~~ facilitate implementation of the program in the various demonstration sites. VA is also responsible for responding to specific inquiries from regional staff concerning changes in or waivers of administrative rules so as to assure more flexibility in working with the private sector. VA is also responsible for maintaining communication with their regional staff in the demonstration sites.

Local Boards of REALTORS® and the individual REALTORS® on the Advisory Councils are responsible for implementing the various program activities as agreed upon between the local VA staff and the REALTOR® Advisory Councils. Their activities may include: development and operation of educational programs, maintaining regular communication and meetings with VA staff, coordinating marketing of VA properties and dissemination of property information to the real estate community.

The NATIONAL ASSOCIATION OF REALTORS® will be pleased to keep the Committee informed on the progress in the Southern California site, as well as the other sites.

In fact, we are proceeding successfully in the Southern California demonstration site. We have worked with the VA regional office to secure a computer disc of their listings on a regular basis. One of our largest Southern California Boards of REALTORS® has converted the disc into a written bulletin, and is distributing the bulletin to all of the Southern California Boards of REALTORS®' members. We are also working to implement the computerized bulletin board in the Los Angeles Regional Office.

Conclusion

Mr. Chairman, I would like to thank you for the opportunity to provide additional information concerning the REALTOR® perspective to the Veterans Administration's home loan guaranty program. Please contact me again if the NATIONAL ASSOCIATION OF REALTORS® may offer any additional information.

Sincerely,

Stephen D. Driesler

NATIONAL CAPITAL OFFICE
NCOA
NON COMMISSIONED
OFFICERS ASSOCIATION
225 North Washington Street • Alexandria, Virginia 22314 • (703) 549-0311

April 7, 1987

Honorable Alan Cranston
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510-6375

Dear Chairman Cranston:

Thank you for allowing NCOA to comment on the proposals offered by mortgage lenders and realtors during recent hearings on the VA budget. Hopefully you will find the attached information useful.

Your courtesy in providing NCOA the opportunity to make these additional comments is deeply appreciated.

Sincerely,

Richard W. Johnson
Director of Legislative Affairs

attachment a/s

RWJ/car

International Headquarters • NCO Association • P. O. Box 33610 • San Antonio, Texas 78265 • (512) 653-6161

QUESTION 1. MBA (page 17 of its testimony) advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

ANSWER 1. The MBA proposal is highly self serving and, notwithstanding efforts by the VA, would probably result in many cases of increased indebtedness to the veteran and increased liability to the VA. Too many variables exist to effectively create a statutory formula which would protect the veteran and the VA against appraisal variances, inadequacies in lender review procedures and outright errors in processing. The VA has an obligation to protect the veteran and itself through the foreclosure process. Accordingly, NCOA believes delegation of foreclosure authority should be opposed.

QUESTION 2. CAR (page 5 of its testimony) recommended that, especially in light of the stricter underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

ANSWER 2. NCOA agrees. Veterans should not be required to pay for essentially the same services twice. However, smaller review fees might be allowed, if necessary, to assure lender acceptance.

QUESTION 3. CAR (page 5 if its testimony) proposed that the VA establish an appeals process for veterans who have been denied VA home loans by an automatic lender on the basis of underwriting criteria.

ANSWER 3. NCOA supports the concept of allowing veterans to ask for reconsideration at the Regional Office. However, care should be taken to assure that reviews of this kind do not adversely affect the program. Lenders, even automatic lenders, should have the final decision in the loans they make.

QUESTION 4. NAR (page 5-6 of its testimony) stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisers without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

ANSWER 4. While variations in appraisal quality would likely result from enactment of this proposal it is unlikely they would have an adverse effect on veterans or the VA. Additionally, vesting lenders with this authority would likely expedite loan processing, a distinct advantage to the veteran. NCOA supports the initiative.

QUESTION 5-A. NAHB (pages 8-9 of its testimony) and MBA (pages 14-15 of its testimony) proposed that the VA establish a program of VA guaranties for adjustable rate mortgages (ARMs), similar to the FHA program for effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

ANSWER 5-A. NCOA is totally opposed to the inclusion of adjustable rate mortgages (ARMs) in the VA loan program. Too few veterans understand the impact a one percent increase in the loan rate can have on monthly payments. For example: a thirty year mortgage of $70,000 at 8.5 percent would require monthly payments of $538.24. If the rate were adjustable at two percent per year, monthly payments could rise to $640.32, an increase of almost 19 percent in one year. A limited one percent rate increase would raise payments 9.5 percent to $588.60 monthly. A four to six percent total adjustment on the mortgage could allow payments to rise as much as 50 to 55 percent over the first few years of the loan. Such increases might be tolerable for some veterans, however they would, NCOA believes, be unacceptable to most.

QUESTION 5-B. MBA (pages 14-15 of its testimony) also recommended that VA ARMs be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

ANSWER 5-B. As stated above, even capped increases in annual percentage rates can drastically increase the veteran's mortgage payment. Thus a period of high inflation accompanied by stagnation in economic production and wages such as the U.S. experienced in the late 1970's and early 1980's could produce tens of thousands of homeless veterans and foreclosures as mortgage commitments exceed income gains. Unchecked rates would further compound the problem if initial rates were deeply discounted to attract sales. Under such conditions payment increases could be even more devastating.

QUESTION 6-A. MBA (pages 15-19 of its testimony) proposed that, when a VA-guaranteed home loan is in default the accural of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

ANSWER 6-A. NCOA would support this proposal only if the interest was forfeited upon aquisition by the VA if the property is bid. Otherwise the proposal serves only to allow lenders to selectively avoid VA aquisition rules in the bid/no-bid determination.

QUESTION 6-B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

ANSWER 6-B. Like the first proposal this suggestion would skew the VA aquisition formula in favor of the lender. Even though the interest would be forfeit in this situation lenders would still be allowed to selectively avoid their own aquisition of undesirable properties under certain circumstances.

QUESTION 6-C. Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

ANSWER 6-C. Interest accrued during a period of VA requested forbearance should be the financial responsibility of the administration.

QUESTION 7. NAR (pages 12-13 of its testimony) recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office which provide real estate professional access to information regarding VA property listings.

ANSWER 7. The establishment of computerized listings of VA properties is highly desirable and should be encouraged even if additional resources must be allocated to the VA to achieve this objective.

PVA

PARALYZED VETERANS
OF AMERICA

Forty Years of Service
1947 1987

April 29, 1987

The Honorable Alan Cranston, Chairman
Senate Committee on Veterans' Affairs
414 Senate Hart Office Building
Washington, D.C. 20510

Dear Senator Cranston:

Thank you for your letter dated March 26, 1987, and the questions pertaining to the February 18 and 19 hearings on the FY 1988 budget for veterans programs. Although these questions are very detailed and complex in their scope, dealing more with realtors and lenders, I will answer them from VSO's standpoint, but our answers will be brief and general in nature.

Question 1. MBA (page 17 of its testimony) advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the intetrity of the process.

Answer 1. We do not agree with the MBA position advocating the delegation of authority to lenders for VA foreclosures. The VA, and only the VA, should be able to make the decision whether to acquire the property or pay the guaranty.

Question 2. CAR (page 5 of its testimony) recommended that, especially in light of the stricter underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

Answer 2. We agree with CAR, if in effect the only charges a veteran borrower has to pay up-front are the Credit Report and the Certificate of Reasonable Value (CRV). It would be to the benefit of the veteran, that if these charges were paid to the original lender and then the application was denied, that they could be transferred to another lender without having to repay the fees.

Question 3.	CAR (page 5 of its testimony) proposed that the VA establish an appeals process for veterans who have been denied a VA home loan by an automatic lender on the basis of underwriting criteria.
Answer 3.	If it can be documented that in some areas veterans are unduly being denied, then some consideration should be given to an alternative process. If underwriting practices are uniform, we would be doing a disservice to the veteran by providing a VA loan guaranty (increasing the risk of fore-closure) through an appeal process.
Question 4.	NAR (pages 5-6 of its testimony) stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisers without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.
Answer 4.	Again, the VA should be involved in the whole process, especially when a veteran is committed to a VA home loan guaranty.
Question 5.	A. NAHB (pages 8-9 of its testimony) and MBA (pages 14-15 of its testimony) proposed that the VA establish a program of VA guaranties for adjustable rate mortgages (ARMs), similar to the FHA program for ARMs, under which the lender would make periodic adjustments in the effective rate of interest on a VA-guaranteed home loan, based on a national rate index. B. MBA (pages 14-15 of its testimony) also recommended that VA ARMs be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.
Answer 5.	We do not support the use of ARM's.
Question 6.	MBA (pages 15-19 of its testimony) proposed that, when a VA-guaranteed home loan is in default: A. The accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

C. Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

Answer 6. By making these changes, it would only assist the lenders, not the VA or the veteran; therefore, we are somewhat hesitant to comment on these specific, detailed proposals without additional, detailed amplification.

Question 7. NAR (pages 12-13 of its testimony) recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office, which provide real estate professionals access to information regarding VA property listings.

Answer 7. Any lender can now obtain a listing of VA properties by having their name entered on the VA's mailing list; however, the growing utilization of electronic communication should be explored. Attention should be given to the potential benefit to the VA, veterans, and the cost and manpower required if such a network were to be established.

Again, thank you for your concern and for holding the February hearing. Also, thank you for allowing PVA the opportunity to testify, and I hope our input has been helpful. Please don't hesitate to contact us if you have any questions regarding our answers.

Sincerely yours,

Bob Moran

Bob Moran
Associate Legislative Director

BM/ef

cc: The Honorable Frank H. Murkowski

The American Legion

For God and Country

★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, D.C. 20006 ★
(202) 861-2700 ★

April 22, 1987

Honorable Alan Cranston, Chairman
Senate Committee on Veterans' Affairs
SR-414 Russell Senate Office Building
Washington, DC 20510

Dear Chairman Cranston:

This letter will respond to your March 26 letter containing questions on the VA home loan program arising from the hearings of February 18 and 19. We apologize for the delay in responding, but the complexity of some of the proposals upon which we are asked to comment have required some research. In that regard, there are some suggestions that, in the absence of technical expertise, we are unable to address fully.

Moreover, it should be stated at the outset that The American Legion takes the view that the VA home loan program is a veterans benefit program. Similarly, it is not a program designed to serve the profit interests of bankers, realtors, builders or investors in mortgage backed securities. Over the years since this program was established, it has worked well in assisting veterans. In the process of assisting veterans, this particular program has also benefited the bankers who lend mortgage dollars, the realtors who sell property, the builders who produce housing and the investors in real estate. While the Legion has no quarrel with any of the ancillary beneficiaries of the program or their motives, it is important to bear in mind just who the program was originally intended to serve.

After having said that, we shall address the proposals made by the National Association of Realtors (NAR), the National Association of Homebuilders (NAHB), the Mortgage Bankers Association (MBA) and the California Association of Realtors (CAR). In offering comment on these proposals it should be understood that our perspective is motivated by the effect each may or may not have on veteran beneficiaries irrespective of the benefits potentially accruing to the organizations making the recommendations.

1. MBA advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

In making this proposal, MBA has argued that the period of time it takes to conclude a foreclosure could be considerably shortened by contrast with the period of time it currently takes the VA. While recognizing MBA's basic desire to shorten the process, we don't believe that a shortened process would be appropriate in many cases. If VA were to undertake, as the Legion has recommended on several occasions, efforts to counsel the veteran in default as to his employment, training or other readjustment options prior to foreclosure, an extended foreclosure process might be advisable so as to give the veteran the best possible chance to regain his or her economic footing and begin repaying the mortgage payment arrearage.

In this connection, the Legion has consistently urged the VA to assist veterans in securing forebearance by lenders in instances where the default is due to a temporary economic reversal the veteran is likely to overcome. An example of this might be an individual who is divorced and suddenly is deprived of the two incomes on which the initial mortgage was qualified. In this example, the veteran might need time to take in a roommate to share expenses.

The Legion has also supported legislation to provide foreclosure relief for veterans the Administrator determines to be likely to regain sufficient economic wherewithal to repay the temporary VA-paid mortgage assistance. This type of legislation was passed by the House some years ago.

For its part, the MBA may be offering this suggestion because of concerns that VA is acquiring fewer foreclosed properties and is instead paying the guaranty more frequently than in the past. Bankers have repeatedly stated that they are ill prepared to market real estate and that the costs of maintaining and marketing foreclosed property are prohibitive. In stating this concern, MBA has also expressed fear that the incentive to lend mortgage dollars to veterans using the VA program might diminish.

This fear has been evidenced in fact in parts of the country such as Texas where foreclosure rates remain high and where property has fallen in value precipitously. To the extent that lenders are avoiding veterans hoping to use the VA program because of VA's practice of acquiring fewer foreclosed properties, veterans are obviously being hurt through no fault of their own.

2. CAR recommended that, especially in light of the strict underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

Offhand, this suggestion is appealing from the standpoint of savings to the veteran attempting to negotiate the hurdles associated with securing a mortgage loan. However, it is doubtful that a second lender would process a loan application without receiving a fee to defray the cost of loan application procedures.

3. CAR proposed that the VA establish an appeals process for veterans who have been denied a VA home loan by an automatic lender on the basis of underwriting criteria.

This particular suggestion seems predicated on the assumption that the new underwriting criteria used by VA are inappropriate in many cases. When the criteria were changed, it was because too many veterans were being qualified for mortgages they could not afford. Naturally, this revelation came to public and congressional view when foreclosure rates began to escalate to record levels. The Legion offered its concurrence at the time that changes were in order, and that standards be developed which combined the flexibility of the old criteria with the risk abatement qualities of the debt to income criteria now in use by VA.

The CAR suggestion would respond to this problem by establishing an appeals process within the VA. To the extent that relief would become available from rigid application of the underwriting criteria, this would seem a good idea. However, it makes more sense to solve the underlying problem than to establish a procedure offering potential relief from inappropriate loan qualification standards.

4. NAR stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system, lenders would review and certify appraisals by VA-designated fee appraisors without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

This proposal seems motivated by a desire to accelerate the process of purchasing a property, and allowing lenders to review and certify appraisals without VA involvement might indeed shorten the process. To the extent that interest rates can fluctuate frequently in a short time depending on market conditions, veterans could benefit if the period between loan application and closing were shortened. An expedited process could allow the veteran a greater measure of certainty as to anticipated interest rates.

On the other hand, the current requirement of awaiting an appraisal by an agent designated by VA with specific VA involvement in the process serves as a safeguard against the potential for abuse by potentially unscrupulous lenders. In the event an appraisal was compiled for the purpose of conforming to the seller's asking price, for example, it could cost the veteran a substantial amount above and beyond the actual value of the property purchased. For the lender under these circumstances a greater profit would be realized (larger loan amount would generate greater interest charges and larger amounts from points) unfairly at the veterans expense. For this reason, we view this particular suggestion with skepticism.

5A. NAHB and MBA proposed that the VA establish a program of VA guarantees for adjustable rate mortgages (ARM's), similar to the FHA program for ARM's under which the lender would make periodic adjustments in the effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

The American Legion has repeatedly asserted its strong opposition to VA guaranty authority for adjustable rate mortgages (ARM's). To authorize VA-guaranteed ARM's based on the theory that a veteran's income will rise fast enough to keep up with upward adjustments in interest rates applied to mortgages, ignores the history of ARM foreclosure rates during the most recent recession. That history reveals that incomes did not rise fast enough to avert foreclosures. That history also reveals that the risks of upward surges in interest rates constitute an unacceptable gamble on market stability. On the other hand, interest rates could come down to levels below those at the time an ARM was issued. Unfortunately, this still requires a potentially disastrous leap of faith by the borrower.

B. MBA also recommends that VA ARM's be authorized without statutory ceilings on adjustments in the mortgage interest rate and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

The opposition to ARM's expressed in part (A) of this question applies here as well. An added feature in part (B) of this proposal deserves further elaboration, however. The American Legion views replacing the administratively set maximum interest rate with the negotiation of interest rates directly between borrowers and lenders as totally unacceptable.

Were interest rates negotiated instead of fixed at a maximum rate, veterans would be subject to comparatively higher rates. In that regard, we note the consistent view expressed by MBA over recent years that user fee increases should be prevented because higher fees will cause higher risks of default and foreclosure. The Legion has agreed with this reasoning in expressing its concern for the solvency of the Loan Guaranty Revolving Fund (LGRF).

We fail to see any difference, however, between the logic applied to user fee increases and negotiated interest rates. In both instances risk of default and foreclosure would likely be elevated along with an attendant threat to the solvency of LGRF. Therefore, we believe this proposal concedes too much in assuming that the market would work to lower the interest rate.

6. MBA proposed that, when a VA guaranteed home loan is in default:
A. The accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

This proposal is presumably related to the recommendation in question 1. Both seem designed to encourage VA to acquire foreclosed property instead of paying the guaranty. To the extent that the appeal of the VA home loan program to lenders would be enhanced, we are sympathetic to this recommendation.

After having said that, we do have some concern for the integrity of the LGRF, were this proposal implemented. Simply stated this proposal is also designed to lower the risk that VA might simply pay a guaranty by preventing VA from counting accrued interest in determining what action is in the best economic interest of the guaranty program. Though VA would be prevented from counting accrued interest in making its determination to acquire a foreclosed property, it would be required to pay the accrued interest whenever a decision is made to actually acquire a property. In the event that VA's ability to properly manage its home loan program assets were impaired, this proposal could have harmful efforts on the solvency of the LGRF.

B. If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

Without a thorough technical knowledge of the consequences of continuing interest accrual in circumstances beyond the control of the lender or the VA, it is difficult to comment on this particular proposal.

C. Interest that accrues during a period of VA-requested forebearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

If it can be assumed that implementation of this proposal would further encourage lenders to exercise VA-requested forebearance, it probably should be adopted. This is because the veteran appearing to be capable of restoring his financial position sufficiently to avert foreclosure should be given the opportunity to try. If this assumption is false, however, our response to question 6(A) applies.

7. NAR recommended that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office, which provides real estate professionals access to information regarding VA property listings.

In the absence of a familiarity with the use of this concept in San Francisco, it is difficult to comment. Nevertheless, if the experience in San Francisco has meaningfully assisted the VA in marketing its inventory of foreclosed property, it should definitely be adopted nationwide. The Legion has repeatedly expressed concern for the slow pace of VA marketing efforts. Accelerated marketing would undoubtedly allow VA to recoup much of the assets expended in acquiring foreclosed property. The recoupment of as much of these assets as possible is critically important to sustaining the solvency of the LGRF.

As stated above, our organization has responded to these questions with the interests of veterans being considered above all other concerns. We know that you agree with those priorities, and we look forward to working with you this year to bolster the home loan program.

Sincerely,

E. Philip Riggin, Director
National Legislative Commission

WRITTEN PREHEARING QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1. According to the VA's budget documents (pages 5-16 and 5-17), a proposed FY 1987 rescission of $75 million in the VA's medical care account -- premised on eliminating funding for the care of so-called "Category C" veterans is planned to be implemented during the last 5 months of FY 1987.

1.A. The rescission would result in a 1,400-FTEE reduction in staffing in FY 1987. In FY 1988, a resource decrease of $92.2 million and 2,350 FTEE is proposed on the basis of the same premise. Based on these figures, it appears that during the 5 months of FY 1987, the cuts resulting from the proposed rescission would average $15 million and 280 FTEE per month (approximately $53,500 per FTEE) and in FY 1988 the proposed cuts would average $7.68 million and 196 FTEE per month (approximately $39,200 per FTEE). Please described how these figures were derived and explain the apparent great disparity between the per month reductions in FY 1987 and FY 1988.

Answer: According to application data for VA care, 2.5% of total applications (cumulative July-September 1986 data) were for veteran eligibility classified as category "C" (e.g. a nonservice-connected single veteran whose attributable income is $20,000 or greater). The 2.5% was applied to affected workloads (VA hospital, outpatient and VA and community nursing) yielding the workload reductions detailed above (full year 1988 reduction).

Resource reductions were calculated based upon the assumption that the cost to treat category C veterans is less than the cost to treat category A's (approximately 83% of the cost of treating an "A"). The affected activity costs were reduced by 2.1% (2.5% x .83).

The $92.2 million and 2,350 FTEE decreases are not 12 month figures but represent the annualized net change from 1987 to 1988 or approximately a 7 month reduction built upon the 5 month reduction already taken in the 1987 base (the $75 million and 1,400 FTEE). The cumulative reduction by 1988 is $167,186,000 (the $75 mil. plus the $92.2 mil.) and 3,750 FTEE and represents a full year (12 month) reduction spanning two fiscal years. The amount of the rescission ($75 million) was based on an estimate of when a rescission proposal might be enacted. The estimate was based on the expectation that the rescission would be enacted with slightly more than five months remaining in FY 1987 (5.4 months) or mid-April.

Question: 1.B. Please state, by category of care, what would be the patient care workload reductions if the rescission were enacted and implemented as proposed.

Answer: The FY 1987 workload reductions associated with the proposed FY 1987 rescission are as follows:

Category	Inpatients Treated
VA Hospitals..............	14,949
VA Nursing Homes..........	274
Community Nursing.........	420
Total..................	15,643
	Staff Visits
VA Outpatient Care........	212,000

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Question: 2.A By what amount over your FY 1988 budget request would the medical care account have to be increased in order to support an FTEE level of 194,140, the level for which Congress provided funding in the FY 1987 appropriations (Public Law 99-500)? (Please include, in addition to personal services costs, costs associated with the additional workload that the additional 3,810 FTEE would make possible.)

Answer: An additional $169.7 million would be required to support an FTEE level of 194,140 in FY 1988. This amount includes personal services and all other costs associated with increased workloads.

Question: 2.B Please provide estimates of the workload increase that the VA could achieve through the addition of sufficient funds in the medical care account (as indicated with your response to part A of this question) to support a 194,140 FTEE level in FY 1988.

Answer: It is estimated that the total number of patients treated would increase by 34,766 as follows:

- VA Hospital...............	33,132
- VA Nursing Home...........	598
- Community Nursing.........	1,036
Total..................	34,766

In addition, it is estimated that VA outpatient staff visits would increase by 463,000. This additional workload would be equivalent to category "C" patients (veterans earning in excess of $20,260 if single and earning more than $25,325 with one dependent.)

Question: 3.A. Do your estimates for third-party reimbursement receipts on page 25-12 of your budget documents ($65 million in FY 1987 and $250 million in FY 1988) reflect the reductions in care furnished to so-called "Category C" veterans that would occur, as the budget assumes, if the Administration's $75 million medical care account rescission proposal for FY 1987 were enacted and corresponding FY 1988 decreases were agreed to by the Congress?

Answer: Estimates for third-party reimbursement receipts ($65 million in FY 1987 and $250 million in FY 1988) are approximations based on earlier analysis that do not reflect either reductions in funding for "Category C" veterans, or the small amount of actual collection experienced to date. Before 1987, it was impossible to have a really solid estimate because of the lack of collection experience.

Question: 3.B. (If Not) Please state the adjustments that should be made in the estimates of third party reimbursements in light of such reductions in "Category C" care.

Answer: We do not have sufficient experience yet to determine the impact that the loss of "Category C" workload would have on the reimbursement estimate. During the course of 1987, we will be refining the estimate for third party reimbursement to reflect actual collection experience and program factors such as the proposal not to fund care for Category C veterans. Any loss of reimbursement funding in 1987 or 1988 would not reduce the amount of funding available to the medical care account.

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Question: 4. Please state what amount was spent in FY 1986, what amount it is estimated will be spent in FY 1987, and what amount would be spent under your budget request in FY 1988 for beneficiary travel under the medical care account for each of the following categories:

(1) Emergency special-mode transportation.

(2) Non-emergency special-mode transportation.

(3) Travel of veterans furnished care for a service-connected disability (not covered in (1) or (2) above).

(4) Travel of veterans with service-connected disabilities rated as 50-percent or more disabled (not covered in (1), (2), or (3), above.

(5) Travel of other service-connected disabled veterans (not covered in (1), (2), (3), or (4), above).

(6) Travel of other veterans who live 50 or 100 more miles from the VA medical center in question.

Answer: (1) Emergency special-mode transportation:

FY 86 - not available (account was not established until 1987)
FY 87 - Estimate - $17,000,000
FY 88 - Budget request - $17,000,000

(2) Non-emergency special-mode transportation:

FY 86 - not available (account was not established until 1987)
FY 87 - Estimate - $25,000,000
FY 88 - Budget request - $25,000,000

(3) Travel of veterans furnished care for a service-connected disability (not covered in (1) or (2), above):

FY 86 - information not available
FY 87 - information not available
FY 88 - information not available

(4) Travel of veterans with service-connected disabilities rated as 50-percent or more disabled (not covered in (1), (2), or (3), above).

FY 86 - information not available
FY 87 - information not available
FY 88 - information not available

(5) Travel of other service-connected disabled veterans (not covered in (1), (2), (3), or (4), above).

FY 86 - information not available
FY 87 - information not available
FY 88 - information not available

(6) Travel of other veterans who live 50 or 100 more miles from the VA medical center in question.

FY 86 - information not available
FY 87 - information not available
FY 88 - information not available

NOTE: FY 86 control point breakout was done for SC and NSC only and reflect a total dollar figure of $57,883,000 and $48,676,000 respectively. The estimated FY 87/88 budget figures for special mode, emergency, and interfacility transfer were derived from two field surveys performed in January 86 and June 86.

Question: 5.A. With regard to the "one percent productivity increase" discussed on page 5-17 of the VA budget documents, please describe the actions that are planned to be taken to increase productivity and how they will be translated into personnel reductions.

Answer: The important output measures in Medical Care are patient workloads; specifically, VA hospital patients treated and outpatient staff visits. In 1986 the combined actual employment in the hospital and outpatient activities decreased .8%. However, actual workloads increased 1.7% for patients treated and 3.8% for outpatient.

Because actual employment change is dependent upon the net of many factors (to include facility activations, productivity resource reductions, etc.), it is important to look at the difference in the rate of changes between employment and workload. The bottom line for 1986 is that workload increased while employment did not; which indicates that the VAMC's continue to show increased productivity even beyond the rate budgeted.

The system has exceeded predicted productivity in the past and we plan to continue this practice. In the 1986 case, inpatient and outpatient workloads exceeded projections (actual patient turnover was faster; length of stay was lower; etc.).

Question: 5.B. (i) Please indicate, by facility and occupation, from which facilities the 1,911 FTEE reduction will be taken.

(ii) If that is not known, how will it be determined and when?

Answer: The Department currently plans that this 1,911 FTEE reduction will be taken proportionately across the board for each VA medical center. These reductions in staffing levels will be primarily in "indirect" or non-patient care areas, i.e., administrative, building management, and engineering, etc. The Medical Center Director will have the discretion as to how these assigned FTEE reductions will be translated into the specific types of occupations reduced. Decisions regarding this and other budgetary changes will be made during the 1988 target allowance process over the next two to three months.

Question: 6a. In FY 1986 and FY 1987, what special funding, if any, has been provided to VA medical centers for the treatment of veteran patients diagnosed with AIDS, and which VAMCs received that funding?

Answer: In FY 1986 the Department of Medicine and Surgery provided the following facilities with additional funding for the treatment of AIDS patients

AIDS N/R FUNDING

VAMC	FUNDING ($)	VAMC	FUNDING ($)
Albany	79,650	Long Beach	115,050
Boston	61,950	Miami	384,975
Bronx	455,453	New York	979,695
Brooklyn	361,965	Philadelphia	105,758
Chicago(LS)	87,173	San Antonio	68,588
Dallas	99,563	San Diego	149,565
Atlanta	118,148	San Francisco	433,560
Denver	61,950	San Juan	211,958
Durham	84,075	Sepulveda	87,173
Houston	221,250	W. Los Angeles	236,738

For FY 1987 we are currently conducting a survey of our facilities for more detailed information concerning the care of AIDS patients prior to providing additional funding.

Question: 6.B. To how many veterans diagnosed with AIDS did the VA furnish health-care services in FY 1986, and to how many does the VA expect to furnish such services in FY 1987 and FY 1988?

Answer : There were 829 new cases of AIDS who received care in the VA reported in 1986. There is no way to retrieve information on those patients who first presented in 1984 or 1985 and survived to receive care in 1986. (There were 211 cases of AIDS reported through 1983; 189 in 1984 and 317 in 1985). We estimate that there are approximately 900 currently under treatment. It is estimated that there will be 1,300 patients under care in 1987 and 1,900 in 1988.

Question: 6.C. What is the VA's average cost per year and average cost per patient of providing health-care services to a veteran diagnosed with AIDS?

Answer : In the absence of individual cost centers, accurate cost figures are difficult to obtain. The situation is complicated by the fact that no international code for AIDS was developed until late in 1986 so that it is impossible to distinguish between patients with AIDS and ARC in the Patient Treatment File. However, it is estimated that costs average $38,000 per patient per year. This is approximately $25,000 more per patient per year than non-AIDS patients with similar DRGs would cost. The cost of providing care to AIDS patients in 1986 was estimated to be $34,200,000.

Question: 6.D. What are your total estimated costs for the care of AIDS patients in FY 1987 and FY 1988?

Answer : It is estimated that the total cost of AIDS patients will be $49,000,000 in FY 87 and $72,000,000 in FY 88. The marginal cost increase over non-AIDS patients with similar DRG's is $32,500,000 in 1987 ($25,000 X 1,300) and $47,500,000 in 1988 ($25,000 X 1,900).

Question: 7.A. Describe how the $10.395 million transfer from the Department of Health and Human Services to augment the VA's alcohol and drug dependence treatment program is being spent, specifying administrative, VA treatment, and contract-care costs.

Answer: Public Law 99-570, the Anti-Drug Abuse Act of 1986, provided the Veterans Administration with $10.395 million, non-recurring, for use in FY 1987 to enhance the Agency's treatment capacity for veterans with drug and other substance abuse disorders. Of the $10.395 million authorized, $7.595 million was used to provide additional funds to VA facilities for contracts with community-based halfway house programs, therapeutic communities, and other psychiatric residential treatment programs for care of veterans suffering from drug and alcohol dependence disorders following a period of inpatient treatment at a VA health care facility. In addition, $2.8 million was distributed to provide three additional staff for outpatient care activities at 30 VA medical care facilities with specialized substance abuse treatment programs. Treatment staff identified for additions to these programs included: (1) a psychologist; (2) a social worker; and (3) a drug rehabilitation technician. Currently, none of the budget is committed for support of administrative costs associated with the treatment initiatives.

Question: B. Under the FY 1988 budget request, to what extent will any FY 1987 increases in patient care workloads resulting from that transfer recur in FY 1988?

Answer: The funding provided in 1987 was nonrecurring. Any recurrence in 1988 would be absorbed within the 1988 base.

QUESTION 8(1): Please provide data for FY's 1984, 1985, and 1986, and estimates for FY's 1987 and 1988, showing: the average time for VA Regional Offices to process and adjudicate claims (from application through award) for each of the following benefits: Compensation, pension, dependency and indemnity compensation (DIC), vocational rehabilitation services and assistance, Vietnam-era GI bill benefits, dependents' and survivors' educational assistance, funeral expenses, plot allowances, specially adapted housing, and automobile grants.

RESPONSE 8(1): In response to the first portion of the question, the attached table shows the timeliness data for certain specified end products. They are: original compensation-110, original pension-180, original DIC-140, education benefits (original)-200 and (reentrance)-210, funeral expenses and plot allowances-160, vocational rehabilitation awards (chapter 31)-215, and vocational rehabilitation time in applicant status. Data has been provided for FY 1984, 1985, and 1986.

Vietnam era GI bill benefits and dependents' and survivors' educational assistance are captured together and are not available separately. Funeral expenses and plot allowances are captured together and are not available separately. Specially adapted housing actions and automobile grants are both part of an end product which includes several other unrelated actions and are not available separately.

Because of several factors, such as productivity, automation, and personnel changes, as well as the varying workload levels in the various programs, the department is unable to project future timeliness figures with any degree of accuracy or validity. As an alternative, the department would be pleased to provide a listing of its timeliness data for the first quarter FY 1987 as soon as it becomes available.

QUESTION 8(2): Please provide data for FY's 1984, 1985, and 1986, and estimates for FY's 1987 and 1988, showing: the average length of time to process a VA home loan guaranty application.

RESPONSE 8(2): Loan Guaranty data is not compiled for the average length of time it takes to process a loan guaranty application. However, data is maintained on the percentage of cases meeting certain time measures for issuing of commitments and for processing certificates of reasonable value (CRV), and that information has been provided as part of the attached table.

PERCENT OF CLAIMS PROCESSED WITHIN SPECIFIED TIMEFRAMES

EPC[1]	DAYS	FY 84	FY 85	FY 86
Original compensation EPC 110	60	19.3	18.9	18.0
	90	37.2	36.0	34.9
	180	80.6	79.0	79.6
Original pension EPC 180	60	36.3	38.1	36.5
	90	55.3	56.2	54.9
	180	90.2	89.8	90.3
Original DIC EPC 140	60	46.4	47.5	44.6
	90	66.0	67.2	64.6
	180	91.9	92.3	91.6
Plots & burials EPC 160	60	79.2	81.8	80.0
	90	90.1	91.6	90.7
	180	98.7	98.8	98.7
Original education EPC 200	30	56.7	63.6	64.3
	60	80.7	84.6	85.3
	90	90.7	92.8	93.6
	180	98.7	99.0	99.3
Education reentrance EPC 210	30	87.9	88.9	87.2
	60	96.3	96.4	96.2
	90	98.6	98.6	98.7
	180	99.9	99.9	99.9
Vocational rehabilitation awards - EPC 215	30	97.7	98.6	98.8
Time in applicant status:[2]		27[3]	78	80
Commitments:[4]		95.9	90.3	68.7
CRV's:[5]		93.3	88.1	54.5

FOOTNOTES FOR TIMELINESS DATA TABLE

1/ End product code (EPC).

2/ Time in applicant status is measured from the date of the application to the date of the first appointment for vocational rehabilitation counseling.

3/ FY 84 was the first year of data collection. The data is not considered adequate.

4/ 85% completed within 8 calendar days. Commitments are measured from the date the agency receives a prior approval of loan application to the date the loan is approved or denied and the VA issues its commitment to guarantee.

5/ 85% completed within 15 calendar days. CRV's are measured by the elapsed time from the date the lender requests an appraisal to the date the CRV is issued.

EPC	DESCRIPTION
110	Initial disability compensation claim or concurrent disability compensation and pension claim.
180	Initial disability pension claim.
140	Initial death compensation or dependency indemnity compensation (DIC) claims. Service connection (SC) for cause of death. Death pension.
160	Statutory burial allowance. Compensation or pension payable as reimbursement for the last sickness and burial expenses. Accrued benefit claims. Reimbursement for headstone, marker, or additional engraving expenses.
200	Original education claims for chapter 32, 34, or 35 of Title 38, USC benefits. Reversals/remands by the Board of Veterans Appeals (BVA) on education issues.
210	Supplemental applications involving change of facility or first change of program. Reenrollment actions. Tutorial assistance.

Question: 8. Please provide data for FYs 1984, 1985, and 1986, and estimates for FYs 1987 and 1988 showing:

(3) The average length of time for an appeal to be decided by the Board of Veterans Appeals.

Answer: The Board of Veterans Appeals' actual average response time on appeals for Fiscal Years 1984, 1985 and 1986 were as follows:

FY 1984: 148 days
FY 1985: 122 days
FY 1986: 130 days

Projections of the Board of Veterans Appeals' average response time on appeals for Fiscal Years 1987 and 1988 are as follows:

FY 1987: 129 days
FY 1988: 129 days

QUESTION 9A: Please state what effect you project that the proposed increase in the VA home-loan fee, from 1 percent to 2.5 percent, will have on the veterans' utilization of their loan guaranty entitlements in FY 1987 and in each of the following 5 fiscal years. (Please provide the supporting analysis.)

RESPONSE 9A: The VA's FY 1988 Budget Submission estimates that the increased funding fee will reduce demand for GI loan financing by less than 5 percent in each fiscal year. The following chart describes the estimates:

	Loans Closed			
FY	EXISTING	PROPOSED	DIFFERENCE	PERCENT
1987	350,000	344,440	5,560	1.6
1988	340,000	323,650	16,350	4.8
1989	305,000	290,350	14,650	4.8
1990	260,000	247,500	12,500	4.8
1991	210,000	199,900	10,100	4.8
1992	180,000	171,350	8,650	4.8
TOTAL	1,645,000	1,577,190	67,810	4.1

We believe that almost all of the fall off in loan originations would result from higher income veterans who have alternative mortgage financing opportunities available to them. Some of these veterans may elect to make a downpayment on a conventional loan in lieu of paying the increased fee. A very high percentage of veterans have been financing the funding fee. At the current maximum home loan interest rate of 8.5 percent, on an average home loan of $75,000, the veteran's monthly payment would increase by less than $9. Lower income veterans buying less expensive homes or mobile homes would pay even less. Because monthly payments increase by such small amounts relative to the total monthly payments, it is difficult to see how the increased fee would deny many veterans an opportunity to use their home loan entitlement.

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QUESTION 9B: Based on your assumptions and projections of mortgage interest rates and housing costs (please state those assumptions and projections), please state what the average increased cost of the proposed fee increase would be to veteran home buyers in FY 1987 and in each of the following 5 fiscal years. In each case, state both what the increased cost would be if the veteran were to pay the fee at the closing and what it would be per month and in total if financed as part of a 30-year mortgage loan.

RESPONSE 9B: The charts below outline an example of a veteran who pays a 1.0 percent funding fee versus one who would pay a 2.5 percent fee. For comparison purposes, an 8 1/2 percent interest rate, 30-year term loan was used.

ONE PERCENT FUNDING FEE

FY	AVG. LA	MO. PYMT.	UPFRONT FEE	FIN. FEE	DIFF.
87	$76,611	$589.14	$766.11	$595.03	$5.89
88	80,643	620.14	806.43	626.35	6.21
89	84,675	651.15	846.75	657.66	6.51
90	88,909	683.71	889.09	690.55	6.84
91	93,354	717.89	933.54	725.07	7.18
92	98,022	753.79	980.22	761.33	7.54

2.5 PERCENT FUNDING FEE

FY	AVG. LA	MO. PYMT.	UPFRONT FEE	FIN. FEE	DIFF.
87	$76,611	$589.14	$1,915.28	603.86	$14.72
88	80,643	620.14	2,016.08	635.65	15.51
89	84,675	651.15	2,116.88	667.43	16.28
90	88,909	683.71	2,222.73	700.80	17.09
91	93,354	717.89	2,333.85	735.84	17.95
92	98,022	753.79	2,450.55	772.63	18.84

COMPARISON OF FUNDING FEES

FY	Financed Funding Fee		DIFFERENCE
	2.5%	1.0%	
87	$603.86	$595.03	$8.83
88	635.65	626.35	9.30
89	667.43	657.66	9.77
90	700.80	690.55	10.25
91	735.84	725.07	10.77
92	772.63	761.33	11.30

CONSTRUCTION ISSUES

Question: 1. Following the transfer of Facility Engineering, Planning, and Construction (FEPAC) to the Office of Facilities, what actions have been taken by the Office of Facilities to establish a base of communication and coordination with individual VA medical centers?

Answer: Prior to the establishment of the Office of Facilities (O/F), the former Office of Construction had taken significant actions to involve the VAMCs in the facility planning, design, and construction process. For example, in the last five years enhanced involvement of medical centers in developing project scope and design has been achieved; medical centers now participate in A/E selections and in the evaluation and selection of onsite Resident Engineers; medical center approval of concepts, preliminary plans and certification of working drawings is required; medical centers participate in project phasing and in partial and final inspections and will become principal participants in the revived post occupancy evaluation process.

The realignment which created the Office of Facilities (O/F) has enabled these efforts to continue and broaden. One of the underlying organizational principles of O/F reflects the importance placed on establishing a base of communication and coordination with the individual VAMCs. Within O/F the Office of Project Management is divided along geographical lines with each project manager being assigned specific VAMCs for which they are responsible and with which they work. Each VAMC has been notified in writing who their facility project manager is, and the project managers have called the VAMCs to explain their roles and offer assistance.

The Office of Planning and Development is organized to correspond to the DM&S regions. The facility planners, like the project managers, have been assigned VAMCs which have been given the names of their respective planners. Close coordination has been established with the individual facilities.

Direct contact between the Director of the Office of Facilities (O/F) and the local VAMCs has been encouraged. Shortly after O/F's creation on October 1, 1986, the Director of O/F sent letters to each VAMC Director asking for their help and pledging the full support of the Office of Facilities. Many Directors expressed their appreciation for this message and frequently call the Director of O/F personally to discuss issues of concern. Continued Periodic Information Letters from the Director of O/F to field facilities are planned. Top O/F staff members attend the regular meetings of the CMD, the Director of Operations, and the Regional Directors. DM&S officials in turn are invited to similar O/F meetings. An information letter was distributed throughout the VA, including the VAMCs, to provide relevant information about the new O/F organization, including changes in procedures and whom to contract.

Answer: 1. Continued:

The merging of FEPAC and the Office of Construction has also presented a unique opportunity to continue and expand upon the relationship with Engineering Services at the medical centers. Recognizing this critical function, a Facilities Engineering Service was established within O/F reporting directly to the Office of the Director, O/F. This Service has constant communication with the field, having primary policy responsibility for all VA medical center engineering programs except Non-recurring Maintenance and Repairs and the delegated construction program. This Service operates the centralized staffing of Chief Engineers as well as the Graduate Engineer Trainee Program. Nationwide conference calls to all Chief Engineers are held monthly. These calls, which typically cover technical policy issues, have included remarks by the Director, O/F. On a daily basis Facilities Engineering Service answers, via telephone, a variety of technical and policy questions from individual medical centers. These questions range from specific medical equipment repair problems, to code interpretations, to proper engineering procedures.

Central Office employees have actively participated in solving the medical centers' problems. As a result of a continuing lack of capacity and a major power outage at one VAMC, the top staff from O/F visited the medical center in order to expedite the award of a construction contract to provide auxiliary power generation. Based on competitive negotiations a contract award was made in late December for a co-generation project for that medical center. This project will not only provide the auxiliary power required but will also permit the medical center to reduce utility costs by reducing power consumption. When a boiler exploded during a change over from gas to oil firing at another medical center, an O/F representative inspected the damage and developed a list of necessary repairs and costs. He also investigated the cause of the explosion and prepared recommendations to prevent a reoccurrence.

At other medical centers, O/F staff have aided the facilities in preparing requests for needed construction projects and in reducing project costs to remain within the minor category with a minimum loss of time.

A sign of the new relationship between the VAMCs and the Office of Facilities was organizing the first two joint Chief Engineer - Resident Engineer Conferences, held in early 1987. These conferences, which included addresses by the Administrator, the Department Heads, the Associate Deputy Administrator for Logistics, and many staff office heads covered organizational, technical, and managerial issues. It was evident that these sessions forged a new working relationship between the engineers at the facilities, the resident engineers, and Central Office staff from the Office of Facilities.

Question: 2. What impact has the 1986 Capital Facilities Study had on the FY 1988 budget request?

Answer: The Capital Facilities Studies were not completed in sufficient time to have any direct impact on the formulation of the FY 1988 budget request. The individual VA medical centers, to the extent possible, have utilized data collected in the Capital Facilities Study in their preparation of proposals for specific non-recurring maintenance, minor and minor miscellaneous construction projects. In the future the development of budget proposals, the development and review of Facility Development Plans and Five Year Facility Plans and the selection of specific projects for funding will take into consideration the assessment data compiled through the Capital Facilities Study.

Question: 3. A request for $11.5 million is included for initial gravesite development and construction of administration and service buildings at the planned new Northern California National Cemetery. The construction schedule for this cemetery calls for the opening of the cemetery by the end of 1990.

3a. Do you expect the plans for construction of a rocket test site two to five miles from Santa Nella to have any impact on the VA's plans to proceed with the cemetery?

Answer: The acceptance of the offer to donate land at Santa Nella is currently under consideration by the Agency pending completion of the environmental compliance process and issuance of a Record of Decision. The rocket test facility will have some impact on the proposed cemetery. However, a preliminary review by the Office of Facilities indicates that the negative impacts are not sufficient, in and of themselves, to warrant cancellation of the proposed cemetery development. The following impacts were cited by the draft Environmental Impact Statement (EIS):

o The air quality will be affected by emissions from burning scrap propellant. This is not expected to have any adverse health effects; however, persons with respiratory problems may be annoyed by these emissions.

o On an intermittent basis, smoke plumes generated by rocket motor tests and propellant scrap burns would cause a negative visible impact since they may be seen for a height of several hundred to a thousand feet.

o Individuals visiting the cemetery may be particularly sensitive to noise impacts from rocket motor testing.

The County of Merced has issued a final Conditional Use Permit to United Technologies Corporation (UTC) which limits rocket testing timing, noise levels, and visual impacts. The Use Permit limits UTC traffic along McCabe Road and the proposed entry road for the cemetery to emergency and security personnel only. No final assessment of the impact of the UTC project on the proposed cemetery has been made pending public comment on the draft EIS, which has been published, and the final EIS.

Question: 3b. Do you foresee any potential obstacles to proceeding on schedule with the development of the new cemetery?

Answer: Yes, again assuming that the Administrator's Record of Decision selects the Santa Nella option. Specific legislative authority to expend funds for any off-site improvements to Northern California National Cemetery may be required. Off-site improvements to McCabe Road are required to bring McCabe Road up to county design standards. In addition, off-site utility work will be required. An estimate of the construction costs for off-site work is currently being developed. The possibility of cost-sharing with Merced County for McCabe Road improvements will also be explored. A legislative delegation of authority will be required for this action.

Question: 4. The FY 1988 request included $14.2 million for the Design Fund and $18.5 million for the Advanced Planning Fund (APF).

4a. In light of the delays experienced in obligating these funds in FY 1986 and FY 1987, what actions will be taken to ensure that FY 1988 Design and APF Funds will be obligated in a timely manner?

Answer: The following actions will be taken to ensure that the FY 1988 Design and APF Funds will be obligated in a timely manner:

o Linking the APF and Design Fund lists to the internal budget process and the OMB and Congressional budget submissions. This will result in earlier development of project lists to support these funds and earlier notification to OMB and Congress.

o Being prepared to submit the APF and Design Fund list with the Congressional budget submission.

o Hiring a single architect to do both preliminary plans and working drawings.

o Alerting higher management if critical delays occur.

Question: 4b. How much of the $18.5 million in APF dollars will be used to support the retention of professional health planning consultants to establish Facility Development Plans?

Answer: Ten million dollars of the FY 1988 APF moneys will be used to develop 40 to 50 Facility Development Plans (FDP).

Question: **4c. How many consultants will be used for this purpose, how will they be selected, under what type of contract, and what organizational element will supervise the constractor's compliance with the technical requirements of the contract?**

Answer: **Seven consultants will be selected for the FY 1987 FDPs. Several others will be selected for award in FY 1988. They will be selected as outlined by the Brooks Bill. The contract for these consultants will be a fixed price contract.**

Four pilot FDPs are testing two methods of supervisory contractor compliance. Four Contracting Officer's Technical Representatives (COTR) have been identified, two COTRs will be located in the Office of Facilities' Office of Planning and Development and two with DM&S.

Upon completion of the pilot FDPs these two methods of supervising the contractor's compliance will be evaluated and a determination as to which method should be used for future FDPs will be made.

EDUCATION PROGRAMS

QUESTION 1: The amount provided to State Approving Agencies (SAAs) has dropped from $13.3 million in FY 1982 to $9.8 million in FY 1987, a reduction of 26 percent.

A. Please provide aggregate data reflecting the workload of the State Approving Agencies for each of years FY 1984 through FY 1986 and the estimated workloads for FY 1987 and FY 1988. The data should include, but not be limited to, the numbers of supervisory visits, initial approvals of programs for veterans' training, and continuing approvals of programs.

B. What impact will the New GI Bill have on the anticipated FY 1988 workload?

RESPONSE 1A: Some of the data has been boxed for storage. We are presently collecting the information and will provide it to you by February 20, 1987.

RESPONSE 1B: Although a slight increase in total trainees is expected, a corresponding increase in State approving agency workload is not expected. The slight increase in trainees is attributable to Chapters 30 and 106. In all likelihood the trainees will pursue programs at established and approved colleges and universities. The continuing decline in training at job training establishments and vocational and technical schools will more than offset any increase in workload at the colleges and universities.

QUESTION 2: According to the National Association of State Approving Agencies, the State of Idaho is considering relinquishing the course approval function.

A. If that should occur, how would course approvals be carried out in the State?

B. To the extent that VA personnel would carry out this function, what personnel resources would be required to do so and what, if any, additional personnel resources would be sought by the VA?

RESPONSE 2A: The VA Regional Office in Boise, Idaho would assume the responsibilities for the approval and supervision of programs offered by educational institutions and training establishments in the State of Idaho The VA will also explore other ways to conduct the approval and supervisory activities.

RESPONSE 2B: If the Boise Regional Office would assume the approval and supervisory responsibilities from the SAA, the regional office would be able to carry out the responsibilities with existing personnel resources. We do not anticipate the need to provide additional personnel resources for such activities.

QUESTION 3: Average employment for the administration of VA's compensation, pension, vocational rehabilitation, and education programs is proposed to be reduced by a total of 210 FTEE while the workload for New GI Bill benefits is projected to increase significantly in FY 1988 (i.e., applications from veterans will increase from 800 in FY 1987 to 19,400 in FY 1988 and applications from Reservists will increase from 89,800 in FY 1987 to 123,000 in FY 1988.

A. What actions are planned to ensure that applications for New GI Bill benefits will be processed in a timely fashion given that proposed reduction in employment?

B. What impact does the fact that the administration of the New GI Bill is still a relatively new process for VA regional offices have on the efficiency with which applications are processed?

RESPONSE 3A: Even though the New GI Bill workload increases in 1988, the total education, compensation, pension and vocational rehabilitation workload decreases in 1988. We are taking a number of actions which will help us to process chapter 30 and 106 claims in a timely manner.

We are developing new computer programs so that chapter 30 claims can be processed in our automated Target system. This system produces very prompt payment once the necessary data are entered. Also, it provides reports to management on the status of pending claims so that appropriate action can be taken on claims that have been pending for long periods.

We are planning to centralize the processing of all chapter 30 claims in St. Louis. We are also planning to test an optical disk storage system at St. Louis as a replacement for our normal method of handling documents which is to file them in claims folders. The optical disk system should help us to process claims more quickly at St Louis since we will eliminate the problem of searching for claims folders.

For chapter 106 claims we are planning an enhanced Target system which will provide new features to improve the administration of this program. The enhancements to the chapter 106 Target system are planned for later in FY 1987.

RESPONSE 3B: Chapter 30 presents some unique administrative problems which we are already taking steps to mitigate.

The initial chapter 30 eligibility determination is very complex and requires a timely data exchange with DOD. In order to assure that the eligibility determination is timely, we are attempting to establish an on-line interface with the Defense Manpower Data Center to achieve immediate access to DOD's data.

Under the authority provided by PL 99-576 we have elected to require monthly verifications of attendance by the student prior to release of payment for veterans attending college level courses. We believe the monthly verification requirement will prevent the overpayment problems associated with the administration of the Chapter 34 and 35 programs. Although this procedure involves the student only and not the school, it may cause payment delays in certain cases. We are exploring ways to further automate the certification process to minimize any potential delays.

We intend to closely monitor the progress of chapter 30 claims to minimize any problems that may occur.

EMPLOYMENT

QUESTION 1: What is the current completion rate of job training programs among veterans participating in VJTA?

RESPONSE 1: The completion rate as of January 31, 1987 was 39.1%.

QUESTION 2: Over the life of VJTA, only about 10.7% of the veterans certified for participation for job training programs actually participated, i.e., entered training under VJTA.

A. What administrative actions can be taken to increase the percentage of participants?

B. What legislative changes in the design of the program would increase the percentage of participants?

RESPONSE 2: During the preparation of its report on VJTA, Centaur Associates, Inc. interviewed a randomly selected group of VJTA nonparticipants (i.e., those who received a Certificate of Eligibility (C/E), but who never entered into training). Centaur found that 41% were working full-time and another 11% were employed part-time. This suggests that, while "participation" is a valid measure ~~of~~ program success, it should not be the sole measure. Many nonparticipants sought and found employment because the C/E generated interest and enthusiasm, even though the employer did not operate a VJTA approved program. Thus, while a high participation rate is desirable for any such program, the true measure of program effectiveness in this case is the improving employment rate. For this reason, we do not believe that any administrative or legislative changes are necessary.

QUESTION 3: Under VJTA, for veterans who apply for and receive a certificate of eligibility, how many (by number and percentage) apply for and receive a second certificate?

RESPONSE 3: As of January 31, 1987, almost 387,000 veterans have applied for participation. Of that number, over 125,500 (about 32.5%) have applied for another certificate.

WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1.A. According to the VA's budget documents (pages 25-12), third-party reimbursement receipts are estimated in FY 1987 at $65 million and in FY 1988 at $250 million. How do you account for an additional $185 million in receipts in FY 1988 over FY 1987, particularly in light of the agency's apparent efforts to concentrate on health care for service-connected disabled veterans from whom reimbursement cannot be sought and in view of the fact that, from July 1, 1986, to December 31, 1986, the agency has collected only $1,790,452 with accounts receivables of $10,033,604 outstanding?

Answer: The VA began to bill third party health plans on October 1,1986. The billing of third parties is new in many areas and as the VA facilities become familiar with the procedures in their areas and establish a relationship with the local health plans, it is anticipated that revenue will increase. As the third party reimbursement provisions of P.L. 99-272 invalidate exclusionary clauses when policies are entered into, renewed or modified, more veterans will have health insurance coverage that will be required to make payment to the VA.

Question: 1.B. Regarding third-party reimbursements, didn't you originally expect that most of the insurance payments would come from the treatment of Category C veterans?

Answer: The VA did expect that a significant portion of insurance payment would come from the treatment of Category C veterans. Most third-party health insurance coverage comes from group coverage arranged by employers as an employee benefit. Based on family incomes, the VA assumed that veterans whose family incomes place them in either Category B or C are gainfully employed and so have health insurance.

The VA does not have sufficient experience and data as yet to revise our anticipated revenues.

Question: 2. The Administration's FY 1988 budget cuts the proposed Palm Beach County Veterans Hospital from the originally-planned 625-bed hospital to a 400-bed facility. Funding for the 240-bed nursing home facility is eliminated altogether. In addition, the budget fails to fund a planned 120-bed nursing home facility in Tampa. Given the demographic pressures on the VA system in Florida for extended care beds, with respect to a large in-migration of aging veterans, please provide a detailed explanation of these two budget decisions.

Answer: The underlying rationale for reducing the size of the proposed Palm Beach, Florida hospital was a change in demographics and in utilization since the facility was originally sized in 1982. At that time, a special study entitled "Final Report on Future Bed Needs and Potential Sites for New VA Hospitals in Florida" recommended that the Palm Beach site contain 625 hospital and 240 nursing home care beds. This study was developed by applying actual 1982 system-wide hospital utilization data to the projected veteran population of Florida. Since the time the study was initially prepared, the VA's system-wide hospital lengths of stay have declined by as much as 20 percent. The veteran population projections for Florida have declined as well. In addition, this difference in lengths of stay between 1982 and 1986 and the lower population projections show a need for a hospital of approximately 400 beds.

The VA's long term care policy emphasizes the provision of new nursing home beds through an expanded state veterans program, community nursing home programs, and the conversion of existing VA-owned hospital beds to nursing home beds. In this way, VA-provided quality nursing home care can continue to be expanded at significantly lower cost. Annually, the VA reviews nursing home bed needs to see whether these resources will satisfy veterans demand. Where state home programs don't exist and community beds are insufficient to meet veterans needs, VA may propose new VA-owned nursing home beds. VA plans to renovate and convert 282 hospital beds to nursing home beds in 1988 in part through the minor construction budget. An additional 190 conversion beds are being provided in the major construction account through the replacement and modernization project at North Chicago. The VA will continue to assess its requirements for nursing home care beds and the various methods of meeting this need.

Question: 3. In the current fiscal year, what information or assistance is being provided to persons whose travel ~~is for~~ the purpose of receiving health care for or in connection with a service-connected disability but for whom beneficiary travel reimbursement is not available?

Answer: The Veterans Administration is exploring alternative options for transportation of eligible veterans for needed medical care services. Current VA guidelines permit volunteer participation in providing transportation to patients using the volunteer's privately-owned conveyance or a government vehicle. The Disabled American Veterans (DAV) have presented the VA with a plan to staff and fund a nationwide DAV volunteer transportation network. The VA reviewed the DAV plan and has issued a DM&S Circular 10-87-11, February 19, 1987, which directs VA medical center staffs to cooperate with DAV representatives to provide assistance, within available resources in the development, implementation and operation of a DAV volunteer transportation network which we believe will help to meet the needs of their local facility.

Question: 4. List and describe the role and level of participation of Special Interest User Groups in Decentralized Hospital Computer Program planning, equipment acquisition, installation, and maintenance.

Answer: Special Interest User Groups (SIUGs) are composed of field and central office program area experts who are involved in determining the functionality of applications and providing the user perspective in their planning, development, verification and implementation. Their continuous involvement and feedback to the development process accounts for the high degree of acceptance that the DHCP software products have achieved with end-users. Membership is comprised of an experienced professional in the responsible VAMC service from each of the seven DM&S regions and a coordinator from the responsible VACO program office. At the present time there are a total of 24 SIUGs. SIUGs are not involved with equipment acquisition per se but have had input to the process when their applications required specialized capabilities. For example, the MAS SIUG has had input concerning options for use of bar code technology for medical record tracking. The attached DM&S circular describes SIUG responsibilities more extensively; a list of SIUGs appears at the end.

CIRCULAR 10-86-147
December 24, 1986

Veterans Administration
Department of Medicine and Surgery
Washington, D.C. 20420

To: Regional Directors; Directors, VA Medical Center Activities, Domiciliary, Outpatient Clinics, and Regional Offices with Outpatient Clinics

SUBJ: Special Interest User Groups

1. PURPOSE: This DM&S Circular is a reissue and revision of expired DM&S Circular 10-84-125, Special Interest User Groups.

2. POLICY: This DM&S Circular provides policy for organization and operation of Special Interest User Groups (SIUGs) in support of the Decentralized Hospital Computer Program (DHCP).

3. ACTION: Special Interest User Groups (SIUGs) are composed of field and Central Office program area experts who are involved in all functional aspects of Decentralized Hospital Computer Program software development from its initial planning through implementation, operation and maintenance. As DM&S has a long range goal of establishing fully integrated hospital information systems serving the entire medical center, it is critical that policy and procedures be provided to facilitate SIUG participation in this process. These are detailed in the attachment, entitled "Policy For Organization and Operation of Special Interest User Groups".

Specific questions may be referred to Maureen Baltay, Director, Information Integration Service (10B/IRM2), FTS 373-2646.

4. REFERENCES: None

5. RESCISSIONS: DM&S Circular 10-84-125. This DM&S Circular will expire December 23, 1987.

6. FOLLOW-UP RESPONSIBILITY: Director, Medical Information Resources Management Office (10B/IRM).

ARTHUR J. LEWIS, M.D.
Acting Deputy Chief Medical Director

Attachment

DISTRIBUTION: COA: (10) only
SS (10B/ADP) FLD: RD, MA, DO, OC & OCRO-1 each plus 200-2
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THIS CIRCULAR EXPIRES DECEMBER 23, 1987

SUBJ: POLICY FOR ORGANIZATION AND OPERATION OF SPECIAL INTEREST USER GROUPS

1. Special Interest User Groups (SIUGs) are composed of field and Central Office program area experts who are involved in all functional aspects of Decentralized Hospital Computer Program (DHCP) software development from its initial planning through implementation, operation, and maintenance. This represents a collaborative effort between field and VACO personnel. The SIUG members share a common functional interest and expertise in a specific area of health care delivery and represent that area as participants in DM&S efforts to provide effective computer-assisted clinical and administrative systems.

Background

2. Past DM&S system development efforts have too frequently resulted in computer systems which do not meet the needs of the end users, often because ADP professionals outside the VAMC worked independently of hospital staff, relying on inaccurate or outdated requirements. The considerable time, expense and effort lost in unsuccessful ADP projects prompted much criticism of the agency. Many past VA software development efforts did not involve system end users to any significant degree.

3. In February, 1982, DM&S adopted a decentralized policy which increased field responsibilities for ADP planning, budgeting and operations to the maximum possible extent. As a result, users working in the hospitals are becoming more heavily involved as information system and software developers.

4. In support of decentralization, Special Interest User Groups have been formed to articulate the needs of the various specialty areas in the medical centers, to ensure that field requirements are understood and addressed in system development plans, and to certify that functional requirements have been met in systems proposed for proliferation to VAMCs. Initially SIUGs were established for the CORE areas of Medical Administration, Pharmacy and Clinical Laboratory. At the present time, there are SIUGs for many other program areas as well. (See Attachment B for a list of existing SIUGs.)

5. As DM&S has a long range goal of establishing fully integrated hospital information systems serving the entire medical center, it is critical that policy and procedures be provided to facilitate SIUG participation in this process. An effective team effort requires that all participants understand what is expected of them.

Primary Role and Responsibilities

6. The SIUG with the approval of the respective VACO program officials will determine the functional content of DHCP modules that pertain to its specialty area. This involves participation in all functional aspects of the software development process including initial planning, requirements formulation, priority setting, software and documentation review and endorsement/signoff prior to release as well as ongoing enhancement and maintenance. Final approval for VAMC release will be vested with the respective VACO program officials.

7. Each SIUG member represents their region and must communicate with regional counterparts at the VAMC level to ensure continued grass roots input to the development process and to ensure that all field stations are kept informed of DHCP plans and progress within the specialty area. Peer input on requirements and ongoing initiatives within the specialty area will be solicited on at least an annual basis. Survey results and analyses are to be distributed with official SIUG proceedings. SIUG members also are a resource for functional advice and assistance to VAMCs especially during implementation. Conference calls, newsletters, questionnaires, regional and district meetings and electronic mail groups are examples of effective communication vehicles.

8. Collectively the SIUG must reach a consensus on system characteristics that can be applied across the broadest possible range of facilities (large, small, multi-division). It must also determine how best to accommodate the variability among facilities into the functionality of its software packages.

9. The SIUG represents the specialty area in DHCP activities. Its software development priorities and functions must be consistent with departmental policy, goals and objectives. Program needs for management information should be a consideration from the beginning in the development of operational (clinical or administrative) software with the objective of improving management information at all organizational levels and reducing the central system reporting burden. A maxim to be followed is that data, regardless of how it is used should be captured only once. Summary totals, workload counting etc. should be generated automatically as a by product of automating functions.

10. The SIUG should serve as a focal point or clearing house for all ADP activities touching upon the specialty area. This requires awareness not only of all DHCP systems in production, development and planned, but also systems that have been developed by local initiative or outside the purvue of DHCP and affected centralized systems. The SIUG functions as a resource conserver preventing duplicative software development efforts. Interaction with other SIUGs and participation in integration task groups will be required for functions that cross service boundaries.

Initiation of a SIUG

11. The responsible program office initiates establishment of a new SIUG by preparing a memorandum to the Director, Medical Information Resources Management Office, expressing the desire to create such a group.

12. MIRMO assigns a staff member to serve as the SIUG liaison and presents the request to the ISC Council.

13. The request is reviewed by the ISC Council which is composed of the ISC Directors and chaired by the Director of MIRMO, who will act on the request considering the ISC Council recommendation, existing activities, national automation priorities and availability of resources. When a SIUG is formed, a responsible ISC is also assigned.

Support and Funding of SIUG Activities

14. Although each SIUG will ultimately have an ISC assigned to it, allocation of programming resources for software development will be based on Departmental priorities. ISC support for maintenance and priority enhancements is ongoing and continuous after initial release of software. ISC assignment is subject to review and change if circumstances warrant such action.

15. MIRMO will fund SIUG field representatives' travel for meetings during the year based upon submission of an annual SIUG activity plan, availability of funds and DM&S software development priorities.

SIUG Membership

16. Representatives from each region and a coordinator from the VACO program office comprise the standard voting membership. At the discretion of the DHCP Training Management Committee, a Regional Medical Education Center (RMEC) representative may also be named.

17. Representatives from each region and the program coordinator are selected for membership by VACO program officials. Appointees should be experienced staff of their respective functional areas. Appointments are subject to the approval of the Director for Operations.

18. In addition the SIUG may involve others in an advisory capacity on an adhoc basis. Centrally directed travel funds will as a rule be provided only for the regional representatives. On a case-by-case basis, MIRMO may agree to fund travel centrally for additional attendees.

19. To promote the broadest possible field representation and limit the burden on particular individuals, SIUG members are appointed for a two year term.

For established SIUGs, VACO program officials must provide MIRMO (10B/IRM2) with a list of current SIUG members and their proposed rotation schedule. It is suggested that no more than three members change in any given year to provide continuity. Names of newly appointed SIUG members, and their respective terms should also be provided. Membership lists for new SIUGs should be provided with the request for SIUG formation.

20. At its first meeting or conference call the SIUG will elect a chairman from among the 7 regional representatives. The chairman will serve for one year.

SIUG Meetings and Communication

21. Meetings of the full SIUG or of subgroups will be held as necessary and as funding permits to provide functional input and review at critical stages in the software development process.

22. To conserve scarce travel funds, consideration should be given to resolving specific issues by telephone conferencing and establishing effective electronic communications channels, e.g., DHCP "Forum" at the Washington ISC.

SIUG Support for Software Development

23. As a part of the overall decentralization effort SIUGs will, for the most part, have wide latitude in group organization and execution commensurate with DM&S priorities and available funding, e.g., in the performance of tasks and activities, the establishment of subgroups to carry out special functions, holding of meetings and conferences, and the selection of forms of communication to facilitate interaction both within the group and with system developers. The following tasks, must be performed:

- Recommend priorities for functional development and enhancement.

- Determine functionality to be included in the initial release of a module and develop a plan for phasing in remaining functions. When developing a new module, the SIUG's first responsibility is identifying those functions that are to be included in the initial release and providing the developers with the information necessary to develop a prototype model to be used in medical center testing. The DHCP concept of development through prototyping is based on refinement of a working model through continuous interaction between developers and end users. During this process, it is not unusual for a SIUG member to devote substantial time providing functional guidance as well as reviewing and directing modifications to the prototype software.

- Participate in cost benefit analysis of applications and additional functionality being considered for applications already released.

- Identify subsequent module enhancements and prioritize their development. As with the original module, the SIUG will specify the functionality of these enhancements.

- Identify security, and access requirements for functions and data within the specialty area.

- Develop functional requirements for internal controls to ensure the privacy of patient information and integrity of the data base.

- Develop and document functional requirements in sufficient detail to guide the programmers during the development and enhancement process. Review documentation and provide input for users guides. Further detail on documentation requirements is contained in "VA DHCP Documentation Standards".

- Provide professional assistance to the ISCs in the specialty area; e. g., the Pharmacy SIUG will advise on computer assisted pharmacy applications and systems that impact oh pharmacy operations.

- Assist the ISCs by providing functional evaluation of software as it passes through development, alpha and beta testing, and verification phases.

- Identify potential management or operational problems resulting from the automation of functions in the specialty area and recommend means for resolving any conflicts between the automated system and the current mode of operation.

- Identify any special supplies required for implementation, e.g. labels and forms. Inform users (pre release to regional counterparts and as part of formal package release documentation) of the need to purchase appropriate supplies and indicate sources.

- Identify and develop comprehensive user oriented definitions for data elements contained in the SIUG's specialty area applications, The DHCP Database Administrator will coordinate this process among SIUGs when data elements are used across multiple specialty area applications.

- Assist the ISCs in identifying workload and terminal requirements (number and type of terminals and special features for CRTs, printers, bar code readers, etc.) that will provide input for centralized procurements, the ADP planning process, and package installation guidelines.

- Participate in implementation planning and execution, e.g., provide input into the development and delivery of training for specialty area hospital staff.

- Review and endorse software and recommend to the VACO program office whether the software meets the functional specifications.

SIUG Administrative Responsibilities

24. Responsibilities of the chairman include:

- Coordination and tracking of SIUG participation in the development process including documentation of functional requirements and input to user guides.

- Preparation and coordination of meeting minutes, SIUG position papers, etc.

- Development of a plan for ensuring grass roots participation and monitoring of interaction between members and constituent facilities within their regions. This may take the form of distribution of SIUG minutes, informal newsletters or regional mail groups on DHCP "Forum" etc.

25. The VACO program coordinator will serve as the point of contact for all organizational elements involved in SIUG activities: SIUG members, MIRMO and other field staff, and the VACO program officials. The coordinator provides all necessary administrative support for the SIUG including planning and travel arrangements (field TWXs and VACO travel authorities) for conferences and meetings and reproduction and dissemination of documentation. The coordinator will also be responsible for providing MIRMO with projected travel plan and budget information to be used for the recurring planning and budget cycles.

26. The MIRMO liaison will track progress and status of system development for the purpose of centralized DHCP planning, project management and reporting requirements. The liaison will also serve as the point of initial contact for resolving issues that require integration and coordination between SIUGs.

The SIUG/ISC/MIRMO Relationship

27. As noted previously, the ISC Council recommends to the Director, MIRMO, assignment to a specific ISC primary responsibility for development of software within a SIUG/specialty area. The developer ISC has technical responsibility for the software, for compilation of the entire package of materials (software, technical and user documentation) that is required for nationwide export. The verification ISC has responsibility for ensuring that the software undergoes the required quality assurance reviews. As appropriate, MIRMO may direct additional peer reviews of functional and technical content and interrelationships among modules.

28. Where appropriate, the actual programming may be delegated to another ISC or to a medical center. The developer ISC, however, continues to be responsible for the activity, ensuring that the resulting programs do, in fact, correspond to the established functional requirements and specifications.

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29. The SIUG and ISC together arrive at a plan and schedule for the software development/release process --- that includes major milestones, content of deliverables, and resource commitment on both sides. Disagreements will be resolved by MIRMO. The ISC will provide periodic status updates concerning the progress of development. A tracking mechanism will be used to ensure follow up on outstanding problems and issues.

30. Test sites will be designated by agreement of the SIUG and developer ISC --- subject to the approval of the respective Regional Director. SIUG members are encouraged to participate directly in testing by having their facilities serve as test sites.

The SIUG/VACO Program Office Relationship

31. Software will be released nationwide by MIRMO after VACO program signoff which constitutes program endorsement of the package as functionally acceptable.

32. Support of SIUG activities and DHCP development may require VACO program officials to:

- Coordinate and promulgate changes to procedures and operating manuals (which can involve obtaining legal opinions, or decisions from oversight bodies external to the VA).

- Pursue opportunities for standardization of operating procedures to enhance the effectiveness of VA standard software.

- Inform the SIUG concerning upcoming changes to central system reporting requirements or new functions (such as those mandated by Congress).

- Coordinate requests for central system (primarily Austin based) enhancements through the SIUG when there are implications for local access or automated data entry.

- Review and contribute to studies and analyses of benefits associated with automation of functions within the specialty area.

- Inform the SIUG of programmatic records retention requirements.

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ATTACHMENT B

CIRCULAR 10-86-147
December 24, 1986

LISTING OF DM&S SIUGS

Building Management
Dental
Dietetics
Engineering
Fiscal
Geriatrics and Extended Care
Kernel
Laboratory
Library
Medical Administration
Medical Media
Medicine/Cardiology
Mental Health
Nuclear Medicine
Nursing
Personnel
Pharmacy
Prosthetics
Quality Assurance
Radiology
Rehabilitation Medicine
Social Work
Supply
Surgery
Voluntary

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Question: 5. According to the VA's budget documents (pages 4-9), ADP equipment rentals were $367,000 in FY 1986, are estimated to be $1.713 million in FY 1987, and are projected to be $1.526 million in FY 1988. Describe what equipment was rented or is planned to be rented in each of those fiscal years, and why the equipment is rented rather than purchased.

Answer: The ADP equipment rental category includes rental of ADP software as well as rental of ADP equipment. The equipment/software being rented falls mainly into five categories: (1) Lease/Timeshare contracts with local universities (EX: UCLA Medical Computing Facility), (2) Lease of ADP equipment for Pilot Studies (EX: Collaborative Programs for Management, Survey of Veterans Demand for Care, Psychiatric Patient Classification System, etc.) (3) Operating System Software Rentals, (4) Lease/Purchase agreements for facility initiatives (EX: Medline), and (5) Common service support from the Office of Information Systems and Telecommunications.

The Medical Care portion of Common Services Support chargeable to ADP equipment rental category has increased each year. The equipment currently being leased under lease/purchase agreements may eventually be purchased. However, it is sometimes more economical to lease equipment, for example, in the case of pilot studies which usually last less than two years or where technology is changing very rapidly.

Question: 6. Please describe how the VA's "proportionate share" of the National Security and Emergency Preparedness (NSEP) National Level Program was determined ($115,000 in FY 1988 according to the VA's budget documents, pages 5-17).

Answer: In May 1986, at the request of the Manager, National Communications System (NCS), all member agencies were asked to determine their NSEP telecommunications requirements during a late trans- early post-attack period on our country.

It is assumed that it would not be possible to communicate via telephone (voice circuit) during such a period. We concluded that the VA could best carry out its command and control responsibilities over our national hospital system through the use o 200 existing teletype (VADATS) circuits which have a high restoration priority. Having an NCS assigned restoration priority on communications circuits means that those particular "lines" will be reconnected before those with a lesser priority, e.g., home telephones.

VA NSEP needs during such a period, when stated as a percentage of the Government-wide telecommunications requirements, is less than one percent (0.98%) of the total. Our proportionate share of the projected FY 1988 costs was calculated by multiplying the total amount of money needed by 0.98 percent. This gives us the amount of $114,742.

EMPLOYMENT

QUESTION 7:	In your response to my prehearing question relating to the Veterans' Job Training Act (VJTA), you stated that, although entry into training is a valid measure of program success, there are other measures. For example, you stated that many veterans who received certificates of eligibility but did not enter training under VJTA "sought and found employment because the (certificate) generated interest and enthusiasm, even though the employer did not operate a VJTA approved program."
QUESTION 7A:	Is the "interest and enthusiasm" which you mentioned that of the prospective employers?
RESPONSE 7A:	The interest and enthusiasm to which we referred applied to the veteran, not to the employer, although it could be assumed that an employer showed an interest by hiring a veteran who presented himself with a VJTA certificate (C/E). An employer may have had an opening for, and hired, a veteran who required no formal (or additional) training, thereby eliminating the need for approval of and participation in a VJTA program.
QUESTION 7B:	Explain how the certificate has that effect and state what evidence you have to document its positive impact.
RESPONSE 7B:	We have no documentary evidence to support the possibility that VJTA certificates (C/E's) generated interest and enthusiasm among veterans. Rather, it was our intent to express a belief that the C/E's had a positive psychological effect by reassuring veterans that the VA was trying to help them find employment. With a C/E in hand, a veteran would be more likely to seek employment and/or training oportunities with renewed hope. It was in this context that we suggested participation rates alone may not be a totally accurate indication of the program's overall impact.

HOME LOAN PROGRAM

QUESTION 8: Department of Veterans' Benefits Circular No. 26-80-11, dated September 5, 1986, established new VA credit underwriting guidelines which set forth minimum residual income standards.

QUESTION 8A: How many veterans who would have qualified for loans under the previous standards have been denied loans under the new ones?

RESPONSE 8A: Indications are that some veterans have been denied VA guaranteed loans under the new credit standards who would have qualified under the old standards. It is not possible to quantify the number of veterans so affected, since some veterans may have been deterred from applying for loans and other may have chosen to purchase less expensive housing to assure that they would qualify for a loan. While some homebuilders and real estate personnel have expressed the belief that the new underwriting standards are unduly harsh, lenders have been generally supportive of the new guidelines.

Even under the new guidelines, VA loans are underwritten on more liberal terms than conventional loans. For example, on a conventional loan lenders usually allow a 30-38 percent debt-to-income ratio, whereas the VA sometimes underwrites at or above a 40 percent debt-to-income ratio. The changes were prudent and modest and were intended to reduce the incidence of veterans being placed in homes which they could not possibly afford. The VA has not provided a true benefit if the veteran is placed in circumstances where he or she will lose the home and a good credit rating and also become indebted to the Government for any amount paid under the guaranty.

QUESTION 8B: What has been the impact on low-income veterans? Has it been disproportionate?

RESPONSE 8B: While there is no way to quantify the proportional impact upon low income veterans, it is likely that the revised credit underwriting standards will impact most severely on lower income veterans and others who would be marginally capable of bearing the burden of home ownership. However, it should be noted that a disproportionate percentage of veterans who lose their homes and have claims owing to the government also have been from the lower end of the market. For fiscal years 1980 through 1985, 48% of the loans guaranteed by VA were for loan amounts less that $55,000. During that same period loans in this category accounted for 63% of the foreclosures.

QUESTION 9: Lenders are required by the VA's residual income guidelines to consider compensating factors, such as good credit history, in determining whether a veteran who does not meet the minimum residual income standards nevertheless should be given a loan.

QUESTION 9A: What information do you have about whether lenders who may automatically approve VA-guaranteed loans actually are evaluating these compensating factors in the cases of veterans who do not meet the minimum residual income standards, as is required by the guidelines, or, alternatively, routinely are rejecting these veterans?

QUESTION 9B: What can be done to ensure that all veterans, especially those who might not otherwise be able to obtain financing, are given full and fair consideration in the loan process, and that lenders do not deny loans to those veterans who are deserving of and could qualify for a VA-guaranteed loan?

RESPONSE 9A & 9B: Lenders earn income from the origination of loans and it is therefore in their best interest to make all "makeable" loans. Even so, we have received reports that some field stations were treating the minimum residual income standards as hard and fast rules and had instructed lenders to do the same.

Steps are being taken to assure that veterans have every opportunity to use the loan guaranty benefits. We have emphasized to both program participants and field station personnel that the new criteria is a guide and failure to meet the criteria does not warrant automatic rejection of the loan. Instead it calls for a closer look at the loan and justification of approval based on compensating factors. However, for automatic loans it is the lender who must judge the credit worthiness of a veteran based on their assessment of acceptable risk. This is particularly true given that lenders may lose money on VA loans if they are not underwritten carefully.

There has also been confusion on the applicability of military benefits when calculating a loan applicant's residual income. With regard to military personnel we recognize that their benefits can make a difference when calculating their residual income. In the past such benefits were treated generally as a compensating factor; however, as further recognition of the value of military benefits, field stations were recently authorized to reduce the residual income guidelines for military personnel and retirees with access to such benefits by a minimum of 5% if it can be shown that the benefits are utilized on an ongoing basis. We believe that this will alleviate the concerns of many program participants.

In order to further emphasize how the new credit standards are to be utilized we held a conference call on February 4, 1987, with all Loan Guaranty Officers and Chiefs of Loan Processing. We went through specific cases with them that had residual incomes or ratios outside of the guidelines. Examples were given of the compensating factors that would allow such loans to be approved. We requested the Loan Guaranty Officers to pass on the information to lenders in their areas and to emphasize that the credit standards are guides and are to be used as such.

We also plan to work with the national associations representing our program participants to further disseminate this information. We plan to publish articles in the Mortgage Banking Association's (MBA) newspaper and we are working with the National Association of Homebuilders to publish a notice to their members. We will continue to work with program participants, both on a local level and a national level, to get the word out on how the credit standards are to be applied.

QUESTION 10: **The National Association of Realtors** (NAR), the National Association of Homebuilders (NAHB), and the Mortgage Bankers Association of America (MBA), in their written testimony for the Committee's February 18, 1987, hearing, made the following proposals on which I would like to have your views:

QUESTION 10A: NAR (pages 5-6 of its testimony) stated its support for legislation to establish a direct appraisal system for properties for which VA-guaranteed home loans are sought. Under such a system lenders would review and certify appraisals by VA-designated fee appraisers without the direct involvement of the VA and close loans on the basis of their own reviews, and the VA would establish criteria which lenders would have to meet in order to be able to process loans in this manner.

RESPONSE 10A: On May 12, 1986, a draft bill making changes to Section 1810, title 38, U.S. Code to allow for a "direct appraisal" system was introduced by the Administrator of Veterans Affairs to the President of the Senate. The program would work in a manner similar to the Department of Housing and Urban Development's (HUD) direct endorsement system. On June 5, 1986, Congressman Stan Parris introduced a similar bill (HR 4948) in support of a "direct appraisal" program. Neither bill moved in 1986. The proposed changes to Section 1810 are part of the VA's 1987 legislative package and it is our understanding that Congressman Parris has reintroduced his bill. Upon implementation of the changes to Section 1810 we intend to move forward with the establishment of "direct appraisal" type program.

QUESTION 10B: NAHB (pages 8-9 of its testimony) and MBA (pages 14-15 of its testimony) proposed that the VA establish a program of VA guarantees for adjustable rate mortgages (ARMs), similar to the FHA program for ARMs, under which the lender would make periodic adjustments in the effective rate of interest on a VA-guaranteed home loan, based on a national rate index.

QUESTION 10B(i): MBA (pages 14-15 of its testimony) also recommended that VA ARMs be authorized without statutory ceilings on adjustments in the interest rate on a mortgage and be freely negotiable, but that the Administrator be empowered to set caps on adjustments as the VA gains experience with this type of mortgage.

RESPONSE 10B(i): VA favors lender-borrower negotiated rates, however because the VA Loan Guaranty Program is primarily a benefit to veterans and not a housing program, VA does not favor a program of VA-guaranteed adjustable rate mortgages. Our present authority for interest rate reduction refinancing loans provide the veteran with the ability to decrease his or her interest rate if rates decline without the risk of an increase when interest rates go up. To date there has been no indication that lenders generally will not participate because VA does not have an ARM program.

MBA's recommendation for VA ARMS without statutory ceilings on adjustments in rates raises the possibility of ARMS with deeply discounted initial payments and resulting payment shock or negative amortization if rates rise. Either of these conditions would increase the likelihood of default on the loan and, therefore, the risk of loss to the veteran and the Government.

Many veterans are first-time homebuyers who may not have experience in negotiating adjustable rate loans or evaluating the full impact of complex mortgage repayment terms under a variety of scenarios. Veterans at the lower end of the income scale who marginally qualify for a loan at a fixed interest rate would be least able to absorb increased payments and would be forced into abandoning their homes, losing their homes through foreclosure and owing a debt to the Government as a result of a claim paid by the VA on their foreclosed loan. The veterans who most need the loan guaranty benefit would be those most at risk of losing their homes during periods of increasing interest rates.

QUESTION 10C: MBA (page 17 of its testimony) advocated the delegation of the authority for VA foreclosures to the lenders. Specifically, MBA proposed that lenders be authorized to order the pre-foreclosure appraisal, determine whether the VA should acquire the property or pay the guaranty (in accordance with the statutory formula), and determine the appropriate bidding instructions for the VA at the foreclosure sale. According to MBA, the VA would monitor lender performance to ensure the integrity of the process.

RESPONSE 10C: Delegation of VA's authority during the foreclosure process could pose serious problems for the government which center around the appraisals made at the time of foreclosure. The following factors should be considered:

(1) Lenders may not be in a position to perform a comprehensive review of the appraisal; either because they don't have adequate appraisal staff or they don't have sufficient comparable sales data available, i.e., similar to data that is available to VA. This could result in an unreliable estimate of fair market value upon which the net value would be based. Under existing procedures, lenders order the pre-foreclosure appraisal which is subsequently forwarded to VA for review. MBA's proposal would obviate these procedures.

(2) If the lender received the appraisal directly from the appraiser and was not satisfied with the value, the lender could order another appraisal and VA would be unaware that there was more than one pre-foreclosure appraisal performed. VA would also lose its ability to monitor the earnings of appraisers since the VA would only have knowledge of paying a fee to one appraiser.

(3) If lenders received appraisals directly, they would have the opportunity to assure that the values resulted in amounts being specified so that VA would acquire the security. This could cause significant resale losses to VA.

(4) It would be more difficult for VA to maintain quality control over fee appraisers. Timeliness standards on assignments could not be checked, nor would VA have an opportunity to review appraisals for accuracy before foreclosures are completed.

(5) Since the net value determination affects the amount of any claim payable by VA and the resultant debt established against the veteran borrower, it may not be prudent to permit the holder to make this determination. Some courts have placed great importance on the involvement of VA in the liquidation appraisal process; especially as to when deficiencies are established against the veteran borrowers.

(6) Lenders often do not have the Loan Guaranty Certificate on hand to alert them on cases with less than full guaranty. This could result in their miscalculation of the unguaranteed portion of the loan, and an amount will be specified when the case should have been a "no-bid."

(7) In joint loan cases involving a veteran and a non-veteran, the holder may fail to properly limit VA's liability only to the veteran's portion of the loan.

(8) In fire loss cases, holders may not take into consideration loss proceeds in determining the balance of the loan indebtedness, and this would affect whether or not an amount should be specified.

(9) Where there is an indicated equity in the property, VA often requests postponement of the foreclosure sale to protect the veteran. Whether or not there is an equity is unknown until the appraisal is received.

(10) At present, VA does not make its decision to refund a loan until an appraisal is received. It would be difficult for VA to determine whether refunding would be in the best interest of the Government and foreclosure stopped, unless the appraisal and other information is received by VA well before the scheduled sale date.

QUESTION 10D: MBA (pages 15-19 of its testimony) proposed that, when a VA-guaranteed home loan is in default:

QUESTION 10D(i): The accrual of interest for purposes of the no-bid calculation should cease when the lender has decided and is prepared to foreclose, although such interest should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

RESPONSE 10D(i): Although there may be merit in this proposal, we are not certain if it is legal to do this under existing law. Further, we are studying what impact this would have on our program.

QUESTION 10D(ii): If a foreclosure is delayed due to circumstances beyond the control of the lender or the VA, such as bankruptcy, the lender should have the option to stop the accrual of interest for purposes of the no-bid calculation in return for forfeiting the right to be reimbursed for such interest if the VA acquires the property.

RESPONSE 10D(ii): The proposal raises questions of how to define circumstances beyond the control of the lender or the VA; e.g., would this include legal requirements which delay foreclosure in various states, or would it include the entire duration of a bankruptcy or only delays which occur after a court fails to grant a request for relief from the automatic stay? Consideration of the procedural problems involved in this proposal indicates it would not seem practicable.

QUESTION 10D(iii): Interest that accrues during a period of VA-requested forbearance by a lender should not be taken into account in the no-bid calculation, but should continue to accrue and be reimbursed by the VA as part of the lender's claim if the VA acquires the property.

RESPONSE 10D(iii): This proposal has some merit but it is not clear whether it can be implemented under the existing law. Also, we are studying what impact this would have on our program.

QUESTION 10E: NAR (pages 12-13 of its testimony) recommends that VA regional offices establish computerized "bulletin boards", similar to that in use by the San Francisco regional office, which provide real estate professionals access to information regarding VA property listings.

RESPONSE 10E: The use of computer-based bulletin boards to provide up-to-date information on available properties has been a relatively recent initiative at several of our field stations. The broker community has given very favorable reviews to those which are now operational, and we encourage use of these bulletin boards at all field stations. However, our regional offices administer a variety of programs, and there are many demands made on the limited hardware and technical resources available.

QUESTION 10F: NAR (page 13 of its testimony) asserts that the loan guaranty departments in VA regional offices are understaffed and lack adequate resources, especially with respect to the property management functions.

RESPONSE 10F: As of the end of February 1987, there were 2021 full-time employees working in Loan Guaranty Divisions at VA regional offices. This represents an increase of 28 employees over the January figure of 1993, and 123 more (6.5 percent) than were working at the end of February 1986. In addition to increasing the permanent Loan Guaranty staff, field station Directors have been detailing personnel from other programs on a part-time basis. VA Central Office has allocated funds for overtime when appropriate to reduce excessive processing backlogs. Regional offices are also utilizing fee personnel on a contract basis to review appraisal reports, prior approval loan applications, and automatic loan submissions. We have also added personnel specifically for the Property Management function. The inventory of acquired properties is heavily concentrated at certain field stations. The Houston Regional Office alone has 21 percent of properties in title. In January of this year we authorized the hiring of 8 FTE for the Property Management section.

It is important to note that the increase in originations in the last year, coupled with the maintenance of relatively high delinquency and foreclosure rates, have placed strains on staffing across all sectors of the housing industry. Given this, we believe the Loan Guaranty Program is adequately staffed. Regional office management can augment the permanent staff by utilizing details and contract funds as the need arises. We continue to closely monitor the workload and timeliness situation.

QUESTION 11: The Veterans' Compensation and Benefits Improvements Act of 1985 (S. 1887), reported by the Senate Veterans' Affairs Committee in November 1985, contained a provision requiring VA to conduct a pilot program to determine the effectiveness of contracting with commercial organizations to manage and dispose of the VA's inventory of unsold properties acquired through foreclosure. H.R. 5299, the Veterans' Benefits Improvement and Health-Care Authorization Act of 1986, as enacted in October 1986 (Public Law 99-576), did not contain the provisions mandating the pilot program. The House and Senate Veterans' Affairs Committees, in the Explanatory Statement regarding the compromise agreement on H.R. 5299, noted that the VA already was taking steps to examine the possibility of implementing such a program.

QUESTION 11A: What is the status of that pilot program?

RESPONSE 11A: A work statement to institute the pilot program has been prepared by a private consulting firm. Our review of this plan indicates that the test, as presently configured, will cost $2 million in 1987 and $3 million in 1988. Because of these anticipated costs, we are reviewing the plan for the purpose of revising it so that the objectives of the pilot program can be met at a lesser cost.

QUESTION 11B: Please describe what you consider to be the advantages and disadvantages of using private sector contractors to manage and dispose of the VA's inventory of properties.

RESPONSE 11B: Private sector contractors involved with employee relocation services and with real estate owned (REO) disposition believe that they can sell properties more rapidly and more cost-effectively than government agencies, including VA. They believe that they are able to accomplish this through existing networks of brokers and repair contractors who have served them well in the past and by monitoring the performance of these subcontractor personnel more closely than a government agency is able to do. Since VA is committed to improving its benefits delivery programs, we think it is to the Government's advantage to conduct a pilot program for the purpose of evaluating the contentions of the private sector contractors.

In our judgement, there are no disadvantages, except for costs, to conducting such a pilot program to examine the cost-effectiveness of a different REO disposition approach. This is because a portion of the pilot program would be funded from GOE, rather than from the revolving fund.

QUESTION 11C: Please comment on the NAR statement (page 11 of its testimony) that the pilot program is not necessary.

RESPONSE 11C: We think the NAR statement reflects their belief that NAR's marketing plan efforts with various VA and HUD offices will achieve the necessary sales velocity for Government-owned properties. The marketing plan was not implemented by NAR as rapidly as initially anticipated and presently involves only a small number of VA field stations. However, we believe it is in the best interest of the program to continue to work with NAR to implement the Marketing Plan and, at the same time, develop and test new ways to dispose of VA's inventory.

We also think NAR may have some concern about the potential displacement of some of their members who presently serve VA as sales and management brokers. Since our projected pilot program would affect only 10% of our inventory properties, any such displacement would be relatively minimal.

QUESTION 12: In September 1986, the General Accounting Office (GAO) released its study on the Administration's proposal to sell to the public loans that are held by the Federal Government as assets, including VA vendee loans. The study focused on the guidelines established by the Office of Management and Budget (OMB), which must be followed in selling the loan assets.

QUESTION 12A: Please provide your analysis of the following recommendations made by the GAO, as applied to the VA's proposed sale of its loan portfolio, including vendee loans.

QUESTION 12A(i): The loan assets should be sold on a structured basis--for example, by issuing securities that are backed by a pool of loans--that includes some form of future recourse to the Government or other credit enhancement.

RESPONSE 12A(i): Beginning in Fiscal Year 1987, VA will participate in a program for the sale of portfolio loans on a non-recourse basis. This is in accordance with Administration policy that loan assets should be sold without recourse in order to determine the true value of the subsidy inherent in Government loans. The GAO recommendation would entail some form of future recourse which is not consistent with Administration policy.

QUESTION 12A(ii): Entities other than the purchasers of the loans should be permitted to service the loans.

RESPONSE 12A(ii): VA has no prohibitions on the servicing of sold loans by other than the purchaser.

QUESTION 12B: As part of its report, the GAO included the results of a study conducted by Smith, Barney, Harris Upham & Co., Inc., of the Dept. of Education's proposed sale of its portfolio of college housing loans. Smith, Barney concluded that selling loans in separate portfolios without recourse, as required in the OMB guidelines, requires that the loan portfolios be brought to a condition acceptable to the market, including providing complete loan documentation and obtaining a commercial credit rating for each loan.

QUESTION 12B(i): How much would it cost and how long would it take to prepare the VA loan assets for sale in this manner?

RESPONSE 12B(i): There would be little additional cost or time required in order to prepare VA loan assets for sale in this manner, since we presently maintain documentation on each account, including a credit report on the borrower. We do not obtain a commercial credit rating for each loan, as this is not normally required with real estate loans secured by mortgages or deeds of trust. However, prospective purchasers will be allowed to review the underwriting and other records on VA vendee loans prior to purchase. This will allow bidders to assign their own ratings to the loans.

QUESTION 12B(ii): In the case of loans for which the VA cannot prepare complete documentation, please quantify the impact which you expect the lack of documentation would have on VA's sale of such loans, including the impact on sales price.

RESPONSE 12B(ii): Since our documentation is usually complete, there should be little or no impact on VA's sale of loans.

QUESTION 13: What is the expected impact on the VA home loan guaranty program and on veterans who seek to use, or do use, their VA loan guaranty entitlement, of the Administration's proposal to increase fees on the Government National Mortgage Association's mortgage-backed securities?

RESPONSE 13: We understand that the Department of Housing and Urban Development (HUD) has rescinded the proposed increase in the GNMA securities guaranty fees.

The attempted increase in the GNMA fee from 6 basis points to 10 basis points would either have been absorbed by lenders or could have been passed on through increased housing costs to veterans. To the extent possible, lenders would likely have passed through the additional 4 basis points (4/100ths of one percent), to the seller or purchaser of the home, or the veteran in a refinancing transaction. Since veterans cannot pay points in purchase transactions, sellers would have been asked to pay the additional cost and if possible would have attempted to pass the increase along to the purchaser in the form of a higher purchase price.

Question: 14. Please submit the Advance Planning Fund and Design Fund lists of projects for FY 1988.

Answer: Following are the lists requested:

TENTATIVE ADVANCE PLANNING FUND PROJECT LIST - FY 1988

Location	Project Title
Alexandria, LA	Modernize Building 2, Intermediate Care
Bay Pines, FL	Renovate Building 24 for Psychiatry
Brooklyn, NY	SPD, Outpatient Laboratory and Admin.
Buffalo, NY	Clinical Addition
Cleveland, OH	Outpatient Addition/Parking Facility
Houston, TX	Regional Office Colocation to DM&S Site
Jefferson Barracks, MO	25,000 Grave Sites
Lincoln, NE	Construct Surgery Addition
Little Rock, AR	Laundry Replacement
Montgomery, AL	Regional Office Colocation to DM&S Site
Montrose, NY	Patient Privacy, HVAC and Outpatient Care
Nashville, TN	Parking Garage
Newark, NJ	Regional Office Colocation to DM&S Site
New York, NY	Parking Garage
Northampton, MA	HVAC, Patient Privacy, Support System, Seismic
Palo Alto, CA	Seismic, Patient Privacy, Building 2
Perry Point, MD	New Intermediate Care Building
St. Louis, MO	Parking Garage (JC)
Sepulveda, CA	Relocate Canteen Service
Shreveport, LA	Relocate Laboratory
Tomah, WI	Modernize Buildings 400, 401, 402, 407 and Clinical Addition
Tucson, AZ	Convert Basement Building 57 to Usable Space
Tucson, AZ	Modernize/Bed Addition
White River Jct., VT	Replace Boilers
Wilmington, DE	Replace A/C System

TENTATIVE DESIGN FUND PROJECT LIST - FY 1988

Location	Project Title	Current Estimated Cost (000)
Beckley, WV	Clinical Additions and Alterations	$ 15,700
Dublin, GA	Outpatient Clinic Addition	8,000
Gainsville, FL	30-Bed SCIU	5,000
Leavenworth, KS	Patient Privacy/Fireproof Structure, B-122	7,800
Long Beach, CA	Structural Seismic Deficiencies, Various Buildings	5,000
Lyons, NJ	Renovate Building 53	6,900
Montrose, NY	Patient Privacy, Bldg. 15	12,000
Mountain Home, TN	Renovate Domiciliary	10,000
Nashville, TN	Clinical Improvements/Patient Privacy	44,600
Newington, CT	Addition, Bldgs. 1 & 2	48,000
Perry Point, MD	Clinical Addition, Bldg. 23H	9,000
Salem, VA	Renovate Psych. Buildings 9, 10 and 11	14,000
Salt Lake City, UT	30-Bed Spinal Cord Injury Center and Canteen	16,000
San Antonio, TX	Renovate for 30-Bed SCI Unit	3,500
	Total	$205,500

Projects may be added or deleted from this list based on decisions arrived at when preparing the FY 89 budget request.

Question: 15. In response to my prehearing question regarding the development of a new national cemetery at Santa Nella, California, you stated that "specific legislative authority" may be needed to expend funds for off-site utility improvements and off-site improvements that may be required to bring McCabe Road up to county standards. You also stated that the possibility of cost-sharing with Merced County for McCabe Road improvements for which a "legislative delegation of authority" would be required also will be explored.

15.A. Are the legislative authority and the legislative delegation of authority you mentioned alternative solutions to the same problem?

Answer: Legislative authority and legislative delegation of authority are synonymous terms for the same congressional action which would give the Veterans Administration express authority to expend funds for off-site roadwork adjacent to Northern California National Cemetery. Under Section 5008 of title 38, U.S. Code, the Veterans Administration has been given authority to improve roads adjacent to medical centers but has not specifically been given authority to expend funds for off-site roadwork adjacent to national cemeteries. However, the VA can incur "expenses which are reasonably necessary and proper or incidental to the execution of the purpose of an appropriation" under 38 U.S.C. S1004(e). Further, as established by the Comptroller General's May 1, 1979, decision (Comp. Gen. Dec. B-194031), any off-site improvements must meet the following criteria: (1) the improvements are incidental to and essential for the accomplishment of the purpose of the appropriation; (2) the cost of the improvement was in reasonable proportion to the overall cost of the lease or contract price; (3) the improvements were used for the principal benefit of the Government and (4) the interest of the Government in the improvements was fully protected. Therefore, expenditures to improve McCabe Road must be evaluated in light of the forementioned criteria due to lack of express legislative authority for off-site road improvement expenditures for national cemeteries in Chapter 24, title 38, U.S. Code.

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Question: 15.B. When do you plan to request such legislative authority?

Answer: The VA has proposed as part of its Legislative Program for the 100th Congress, 1st session, a companion section to section 5008 of title 38, U.S. Code, which authorized the VA to make contributions to local authorities for construction of traffic controls, road improvements or other devices when deemed necessary for safe ingress or egress into hospitals. The companion section, section 1009, would apply to national cemeteries. The legislative package is undergoing preparation by the Agency for introduction to Congress in late April 1987.

Question: 15.C. Please explain what is meant by the term "legislative delegation of authority."

Answer: As used in the response to your prehearing question, the terms "specific legislative authority" and "legislative delegation of authority" are synonymous terms for the same congressional action, which would give the VA express authority to expend funds for off-site road work to facilitate safe ingress to or egress from a national cemetery.

Question: 15.D. Please provide a timetable for the completion of the cost estimate for the off-site work and the steps you plan to take to seek the authority you may need to proceed with the actual work.

Answer: A cost estimate for the McCabe Road improvements is scheduled for completion in April 1987. The estimate will establish a range of costs dependent on the extent of the upgrading of McCabe Road. A specific level of proposed upgrading will be determined during the preliminary planning process which is scheduled to begin September 1987 and to be completed May 1988. The possibility of cost-sharing with Merced County will be explored prior to the completion of the preliminary plans.

If the proposed Section 1009 is not enacted, then an administrative review of the proposed expenditures using the criteria of the Comptroller General's decision, as discussed in answer 15A, will be initiated.

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ADDITIONAL WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1. In your response to my prehearing question regarding the cost of treating AIDS patients, you stated that the VA could not distinguish patients with AIDS from patients with ARC in its Patient Treatment File (PFT), because an international code for AIDS was not developed until late 1986. Is the VA now able to distinguish in the PTF between an AIDS and an ARC patient?

Answer: The National Center for Health Statistics published a listing of specific AIDS and ARC codes for implementation October 1, 1986. The Veterans Administration has accepted these new codes which are now being used to categorize patients discharged from VA facilities. The first report of AIDS and ARC patients discharged from VAMCs is expected to be available on April 30, 1987.

Question: 2.A. Are there data available which demonstrate the cost-effectiveness of the VA's podiatry and optometry services, and, if so, what do these data show?

2.B. What plans are there for the further utilization of these services within DM&S?

Answer: Yes, there are data available at individual VAMCs. These data indicate that staffing eye clinics with optometrists to provide primary eye care is very cost-effective. The Resource Allocation Model (RAM) utilized the past years has shown at the local VAMC level that eye clinics utilizing optometry have been consistently cost-effective. This means that the resources allocated on the basis of DRGs and weighted work units generated by the eye clinics have far exceeded the cost of operation. This cost-effectiveness has been the most pronounced at those VAMCs having eye clinics jointly staffed by ophthalmologists and optometrists. This joint staffing, envisioned by the committee in P.L. 94-581, has produced the highest cost effectiveness.

In 1983 the Department of Medicine and Surgery surveyed all VAMC eye clinics in an effort to determine, among other things, the need for additional eye care staff. This survey was then reviewed by the Surgical and Optometry Services. Among the conclusions of this review was the identification of a need for both additional full-time ophthalmologists and additional full-time optometrists. Since that survey, six full-time optometrists have been added.

With respect to podiatry, podiatric services with the VA are generally under the VAMC's Surgical or Orthopedic Services. Specific data will vary from facility to facility; however, it is our experience that podiatric services have been cost effective over the years. This is especially true for patients with diabetes and peripheral vascular disease progression in the limbs. Podiatric care has resulted in savings by avoiding more costly surgical amputations, orthotics and prosthetics, and extensive physical therapy.

On October 21, 1976, the 94th Congress of the U. S. passed PL 94-581, the Veterans Omnibus Health Care Act of 1976, provisions of which established Podiatric Service in DM&S of the Veterans Administration. After passage of this law, podiatrists were placed in thirty medical centers. A residency program in Podiatric Medicine and Surgery was also initiated in 1977. Today, March 1987, we have 82 residency positions in Podiatric Medicine and Surgery.

QUESTION 3: In your response to my pre-hearing question regarding the average time for VA Regional Offices to process and adjudicate certain claims for benefits, you offered to provide a listing of timeliness data for the first quarter of FY 1987 with respect to claims adjudication (as specified in that question) when such data becomes available. When do you expect the data to become available? Please submit the data as soon as it is available.

RESPONSE 3: As indicated in our earlier response, we are now providing information concerning the first quarter of Fiscal Year 1987. The information is in the same format previously utilized.

PERCENT OF CLAIMS PROCESSED WITHIN SPECIFIED TIMEFRAMES

EPC (1)	DAYS	FY 84	FY 85	FY 86	1st Qtr FY 87
Original compensation	60	19.3	18.9	18.0	17.3
EPC 110	90	37.2	36.0	34.9	33.4
	180	80.6	79.0	79.6	78.9
Original pension	60	36.3	38.1	36.5	36.4
EPC 180	90	55.3	56.2	54.9	54.5
	180	90.2	89.8	90.3	90.2
Original DIC	60	46.4	47.5	44.6	43.0
EPC 140	90	66.0	67.2	64.6	62.9
	180	91.9	92.3	91.6	91.0
Plots & burials	60	79.2	81.8	80.0	79.3
EPC 160	90	90.1	91.6	90.7	90.2
	180	98.7	98.8	98.7	98.7
Original education	30	56.7	63.6	64.3	62.0
EPC 200	60	80.7	84.6	85.3	84.4
	90	90.7	92.8	93.6	93.3
	180	98.7	99.0	99.3	99.2
Education reentrance	30	87.9	88.9	87.2	86.2
EPC 210	60	96.3	96.4	96.2	95.5
	90	98.6	98.6	98.7	98.6
	180	99.9	99.9	99.9	99.9
Vocational rehabilitation awards - EPC 215	30	97.7	98.6	98.8	98.7
Time in applicant status (2)		(3) 27	78	80	93
Commitments (4)		95.9	90.3	68.7	61.4
CRV's (5)		93.3	88.1	54.5	57.5

FOOTNOTES FOR TIMELINESS DATA TABLE

(1) End Product Code (EPC).

(2) Time in applicant status is measured from the date of the application to the date of the first appointment for vocational rehabilitation counseling.

(3) FY 1984 was the first year of data collection. The data is not considered accurate.

(4) 85% completed within 8 calendar days. Commitments are measured from the date the agency receives a prior approval of loan application to the date the loan is approved or denied and the VA issues its commitment to guarantee.

(5) 85% completed within 15 calendar days. CRV's (Certificates of Reasonable Value) are measured by the elapsed time from the date the lender requests an appraisal to the date the CRV is issued.

EPC	DESCRIPTION
110	Initial disability compensation claim or concurrent disability compensation and pension claims.
180	Initial disability pension claim.
140	Initial death compensation or dependency indemnity compensation (DIC) claim. Service connection for cause of death. Death pension claim.
160	Statutory burial allowance. Compensation or pension payable as reimbursement for the last sickness and burial expenses. Accrued benefits claim. Reimbursement for headstone, marker, or additional engraving expenses.
200	Original education claims for chapters 32, 34, or 35, Title 38, USC benefits. Reversals/remands by the Board of Veterans Appeals (BVA) on education issues.
210	Supplemental applications involving change of facility or first change of program. Reenrollment actions. Tutorial assistance.
215	Vocational rehabilitation award, initial and/or reenrollment.

QUESTION 4: The National Association of Home Builders (NAHB) (page 3 of its testimony) asserted that the Administration's proposed increase in the GNMA guaranty fee from 6 to 10 basis points "will directly impact the VA home loan program by raising costs to homebuyers as well as reducing incentives for lenders to service VA loans."

QUESTION 4A: Do you agree with NAHB's assertion?

RESPONSE 4A: The Department of Housing and Urban Development (HUD) has rescinded the proposed increase in the GNMA securities guaranty fee, therefore there will be no impact on veterans.

QUESTION 4B: What is VA's position regarding the proposed GNMA fee increase?

RESPONSE 4B: Although VA is mindful that there are costs associated with operating GNMA we are also aware that additional costs imposed by GNMA will either be borne by veterans, persons selling homes to veterans, or lenders. If fees were passed on to veterans we would prefer that other measures be taken, if possible, to contain such costs.

QUESTION 4C: Do you anticipate that the fee increase will be passed on to veteran homebuyers? If so, how much do you expect the average increase to be per loan -- in the form of increased closing costs or otherwise?

RESPONSE 4C: Since veterans cannot pay points in purchase transactions, sellers or the lenders would have to pay the additional cost. If the lenders costs are passed on to the seller, the seller may try to pass the increase along to the purchasers in the form of a higher purchase price. Veterans would be responsible for any increased fees if they are refinancing a loan.

QUESTION 5: The California Association of Realtors (CAR) (page 5 of its testimony) recommended that, especially in light of the stricter underwriting criteria many lenders are now using, a veteran whose VA loan application has been rejected by a lender with prior VA approval to make guaranteed loans should be permitted to seek loan approval from another such lender without having to reapply and pay a second loan application fee.

QUESTION 5i: What are your views on this proposal?

RESPONSE 5i: Before discussing CAR's recommendation, perhaps it will be useful to discuss the current process a veteran may undergo in obtaining a home loan.

Once the veteran sees a home, the veteran goes to the lender. The lender then has the veteran complete a loan application. It is also necessary to obtain an appraisal of the property and a credit report on the veteran. Under current regulations the veteran is not charged an application fee but may be charged the lenders "out of pocket expenses". This would include approximately $200 for the property appraisal and around $40 for the credit report.

If the veteran is denied a loan at the first lender, the veteran may then go to another lender in order to obtain approval for the loan. Once again, the veteran would be required to fill out a loan application, provide a property appraisal and a credit report. Since the property was already appraised, the only cost to the veteran would probably be the cost to obtain a credit report. Currently, the veteran does not pay an application fee and pays the lender a one per cent loan origination fee at the time the loan is closed.

To specifically answer the question, there is no regulation and the VA does not discourage a veteran, who has been denied a loan with one lender, to apply for a loan with another lender. As mentioned above, the veteran does not pay an application fee and is responsible only for the lender's "out of pocket" costs. In most instances, this would be the cost of obtaining a credit report.

QUESTION 5ii: If CAR's proposal were adopted, what would be the approximate average cost of processing the second loan application, and who would bear such costs?

RESPONSE 5ii: As mentioned in the previous response, the veteran is not charged an application fee. The veteran is only responsible for the lender's "out of pocket" costs in approving the loan. Since the veteran already would have obtained an appraisal of the property, the only additional cost may be the cost to obtain a credit report. In most instances, this cost would be around $40.

QUESTION 6: CAR (page 5 of its testimony) proposed that the VA establish an appeal process for veterans who have been denied a VA home loan by an automatic lender on the basis of underwriting criteria.

RESPONSE 6: As an automatic lender, lenders are authorized to approve or disapprove VA-guaranteed loans without the prior-approval of the VA. They use the credit standards prescribed by the VA. There is no appeal process since lenders would probably feel that it would be similar to a prior-approval program and may not wish to participate. We have no authority to "make" a lender approve a loan. It is a business decision and since lenders earn income from the origination of loans it is in their best interest to make all "makeable" loans. Veterans are free to try different lenders since not all lenders have the same volume of business and may make loans that others can't for reasons other than underwriting.

QUESTION 7: The Administration's FY 1988 budget proposes the sale without recourse of $900 million of assets from the VA's loan portfolio, including vendee loans, over the three year period FY 1988-1990.

QUESTION 7a: How much do you anticipate having to discount these loans in order to sell them without recourse?

RESPONSE 7a: It is estimated that the average discount on the sale of these loans will be 30 percent. On the surface these loans would appear to be unattractive because most of the loans are delinquent. However, these loans have value because they are secured by real property. The properties securing these loans can be sold to satisfy a major portion of the indebtedness.

QUESTION 7b: How much revenue to the Loan Guaranty Revolving Fund, in the form of payments of principal and of interest, will be lost in each of the next five fiscal years as a result of the proposed portfolio sales? Please provide separate figures for lost principal and for lost interest.

RESPONSE 7b: Before discussing the amount of foregone interest and principal payments that will result from the sale of the loan portfolio, it would be helpful to examine the composition of the loan portfolio.

The loan portfolio is constantly changing. The $900 million referred in the budget does not refer to specific loans but is based upon the current level of the loan portfolio. The loan portfolio is comprised of various types of loans.

At the end of 1986, the VA's vendee portfolio totaled $939 million. Th~~is pool is~~ made up of: loans that are currently in default (These loans are 39 percent of the total loans and may be anywhere from one month in default to over six months in default. It should be noted that in September 1986, two thirds of the loans in this category had been in default less than four months); loans with bad payment record (these are loans (21 percent of the total) which have missed payments and are currently trying to be cured through the establishment of a good payment record; loans which for various reasons do not have insurance (13 percent of the total loans in default); and loans which have recently been acquired (27 percent).

RESPONSE 7b:
(continued)

Therefore, it is assumed that the loan portfolio at the time of the sale would have the same basic composition. It was also assumed that a cross-section of the loan defaults would be sold first and that on the average the sale would occur in the first quarter. The chart below provides an estimate of the level of interest and principal collections that would not be realized through the sale of the loan portfolio (dollars in thousands):

Fiscal Year	Interest	Principal	Total
1988	$15,100	$ 9,370	$ 24,470
1989	$40,900	$25,300	$ 66,200
1990	$62,200	$38,500	$100,700
1991	$67,000	$41,500	$108,500
1992	$67,000	$41,500	$108,500
Total	$252,200	$156,170	$408,370

It should be noted that there would be some administrative cost avoidance resulting from the fact these loans would no longer be in the loan portfolio.

QUESTION 7c: Will the savings the Administration hopes to realize by transferring the risk of default exceed the reduction in the sales price that will result from selling the loans without recourse?

RESPONSE 7c: The selling of the loan portfolio without recourse will allow the Agency to realize cash receipts totaling $630 million without incurring future obligations resulting when the loans go into default. It is important to understand the nature of these loans. As mentioned in the previous response, the loan portfolio is comprised of loans that are currently in default as well as loans that currently have a bad payment record and loans that have recently been acquired.

In a sense, the VA is already incurring losses in the form of the costs of holding and servicing these loans. There are several advantages in a) selling the loans and b) selling these loans without recourse.

First, the VA would realize cash receipts totaling $630 million over a three year period. Second, selling the loan portfolio is good credit management. There are administrative costs incurred in holding any loan. The costs deal with the administrative costs associated with servicing the loan. In the case of the selling the loan portfolio with recourse, the costs would include the cost of reacquiring the loan, reservicing the loan, and once again reselling the loan. Therefore, in examining the sale of the loan portfolio, one can not look only at differences in the cash receipts resulting from selling the loan without recourse versus with recourse, but also the administrative cost savings and the advantages (effectiveness) in managing and administering a much smaller loan portfolio.

QUESTION 7d: Can vendee loans sold without recourse be put in loan pools backing GNMA securities?

RESPONSE 7d: Vendee loans sold without recourse will not be eligible for GNMA pools. However, we believe investors will be interested in purchasing vendee loans because they are secured by real estate. A number of large investment firms have expressed interest in our plans to sell vendee loans without recourse.

QUESTION 8Ai: What efforts is the VA making to evaluate the impact of the new residual income guidelines, issued in Department of Veterans' Benefits Circular No. 26-80-11, dated September 5, 1986, on veterans applying for VA loans as well as on the loan guaranty program itself?

RESPONSE 8Ai: Indications are that some veterans may not qualify for the same size VA guaranteed loans under the new credit standards who would have qualified under the old standards. It is not possible to quantify the number of veterans so affected, since some veterans may have been deterred from applying for loans and others may have chosen to purchase less expensive housing to assure that they would qualify for a loan. While some program participants have expressed the belief that the new underwriting standards are unduly harsh, lenders have been generally supportive of the new guidelines. The new standards imposed are still considered more lenient than standards imposed on conventional loans made with low down payments. The guidelines were intended to reduce the incidence of veterans being placed in homes which they could not possibly afford. The VA has not provided a true benefit if the veteran is placed in circumstances where he or she will lose the home and a good credit rating and also become indebted to the Government for any amount paid under the guaranty. We plan to reconvene the task force on credit underwriting in order to evaluate the effect of the revised standards. At that time, we will have the benefit of a full year's experience with the guidelines.

QUESTION 8Aii: In particular, what is the VA doing to evaluate the effect of regionalizing the minimum residual income standards on veterans who live in areas where local costs differ markedly from the applicable regional standard?

RESPONSE 8Aii: We continue to review any data that becomes available. We recently completed a review of the Department of Labors Bureau of Labor Statistics (BLS) data on Standard Metropolitan Statistical Areas (SMSA) which we felt did not provide an adequate basis for further adjustment to our regional guidelines. We then asked the BLS to provide us with a special computer run based upon population size within each region. Our analysis of this data revealed that the sample sizes used were very small and therefore not statistically valid. Even if the data was statistically valid it did not reveal enough of a difference from our current guidelines to warrant a change.

QUESTION 8Aiii: John Vogel agreed at the hearing on February 18 to take a further look at these questions. Where does that review stand and what results have there been thus far?

RESPONSE 8Aiii: As we have stated we continue to review our underwriting guidelines and any data that may become available. We do plan a thorough review after the standards have been in place for one year.

QUESTION 8B: As you stated in your written response to my hearing question concerning the impact of the new underwriting standards on active-duty military personnel, the residual income guidelines provide that non-salary benefits available to active-duty military personnel are to be taken into account in determining residual income. Shouldn't the guidelines also explicitly provide that residual income should be calculated in the same way for military retirees who enjoy the same benefits?

RESPONSE 8B: Yes, and we have informed field station personnel and program participants of this policy.

QUESTION 9: The establishment in 1984 of a mandatory formula in section 1816 of title 38 governing when the VA can acquire a foreclosed property and when it must pay the lender the guaranty, in the case of a default by a veteran on a VA-guaranteed loan, has resulted in a change from the VA acquiring properties in virtually all cases, to the VA paying the loan guaranty in an increasingly large number of cases. What is the effect of the new VA policy on the amount and enforcement of veterans' liabilities after default? Please include in your answer any differences between VA policies and practices with respect to efforts to collect from the veteran and the prevailing practices of the lenders in this respect.

RESPONSE 9: In 1984, 38 USC 1816 was amended to require VA to consider estimated costs for management and disposition of properties in determining their net value for purposes of acquisition decisions. This amendment did not create a totally new policy; however, it did codify our procedure in a way which results in fewer acquisitions because expected costs associated with property management and resale are assigned as a cost of acquisition. Since VA requires the veteran's loan indebtedness to be credited with the net property value in acquisition cases, and pays a claim for the balance of the debt, this has the effect of increasing the amount of the VA claim payment. The liability account established against a veteran after foreclosure corresponds to the claim paid; therefore, this amendment has increased the amount on many liability accounts. The liability accounts not affected are those in which VA would pay no claim, or pay a maximum claim, regardless of the procedure used to determine value.

Enforcement of collections on liability accounts has not changed as a result of the amendment to 38 USC 1816. The VA continues to utilize all collection techniques within our Centralized Accounts Receivable System. We are unable to comment on differences between VA's debt collection practices and those of lenders, since lenders do not normally undertake collection of deficiencies following GI loan foreclosures.

Question: What is the net savings in 1988 resulting from the mission change in Walla Walla after consideration of translocation and other employee expenses.

Answer: Savings

The first year impact shows a slight cost increase. As with many Federal facility changes, savings accrue in the second year and later years, while the cost of managing the change are borne in the first year. These costs are incurred in order to protect Federal employees and the agency's mission.

Bed closures are planned to be implemented over a 12 month period, beginning October 1, 1987. Plans include closure of psychiatry beds within 6 months, closure of surgery beds within 9 months, and closure of medicine beds by the end of FY 88. Bed closures may occur sooner if key physician staff leave before the scheduled closure dates. We anticipate services in all bedsections would be scaled back before full closure of each service.

The saving estimates by bed service are shown below:

Service	Target Closure Month	FY 88 Savings (000)
Psychiatry	6th	$1,109
Surgery	9th	596
Medicine	12th	1,096
Savings from Inpatient:		$2,801

In addition to the reduction in inpatient costs, there would be a slight reduction in outpatient activity. During FY 88, the outpatient visits are estimated to be reduced by 5,000 visits which will result in a savings of approximately $390,000. This cost per visit acknowledges that the full cost per visit of $90 cannot be saved from this small reduction.

Savings from Outpatient: $390,000

Increased Costs

The three major costs associated with the mission change are transfer of resources to Spokane VAMC, increased patient transportation expenses and increased contract hospitalization. Since the major changes in inpatient services would be accomplished gradually over the years, the cost transfers are estimated to be one-half the full year cost.

Increased Costs: $940,000

Cost of Relocation/Separation

Severance Pay (60 employees)	$413,000
Unemployment Compensation (60 employees)	228,000
Relocation Costs (approximately 90 employees)	2,001,000
	$2,642,000

Recap of FY 88 Costs

Net savings inpatient/outpatient	$2,251,000
Cost of Relocation/Separation	(2,642,000)
Total FY 1988 Cost	$391,000

Question: The independent (VSO) FY 1988 budget proposals includes the conversion of 550 hospital beds to nursing home beds. If this were accomplished, what would be the net increase in census and conversion cost of converting additional beds to nursing home care?

Answer: The budget request includes a conversion of 282 hospital beds to nursing in 1988. The independent (VSO) proposal would increase the 1988 planned conversion by 268 beds. This equates to the following resource adjustments:

Nursing home census (268 beds X 95% occupancy rate)	255 census
Resources transferred from VA hospital to VA nursing (representing operational costs charged to the new activity and decreased from the old activity)	$11,403,000 and 319 FTEE
Additional capital expenditures required to convert existing space for nursing beds	$ 7,504,000

Question: How much funding is contained in the 1988 Budget request for employee education and training that was budgeted as Postgraduate and Inservice Training (PIT) until FY 1986?

Answer: The 1987 budget eliminated PIT as a separately identified program by transferring full funding to the Medical Administration program and the Medical Care appropriation. The 1988 budget request increases those amounts by the inflation factors applicable to each account:

	($ in 000's)	
	FY 1987	FY 1988
Medical Care	$8,757	$9,081
Medical Administration	184	190
Total	$8,941	$9,271

Question: What are the FY 88 funding and employment related to the FY 87 Rescission proposal?

Response: The following chart provides the dollars and employment associated with the proposed 1987 rescission and the 1988 savings from current services. Both are associated with funding for the service disabled and all other veterans who apply for care except those veterans in Category "C".

	1987 Rescission Proposal	Savings From 1988 Cur. Services	Change
Dollars (000)	$75,000	$167,186	$92,186
FTEE	1,400	3,750	2,350

FURTHER ADDITIONAL WRITTEN FOLLOWUP QUESTIONS FROM CHAIRMAN CRANSTON TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

QUESTION 1: Of those properties which meet certain requirements and which would be suitable for conveying to organizations providing housing to homeless veterans (i.e., located in urban areas in close proximity to community services for homeless persons and listed for sale for 12 months or more), how many could be conveyed with no detrimental effect on the Loan Guaranty Revolving Fund?

RESPONSE 1: Our regional offices were polled on this question. They were asked to identify the number of properties in the inventory which meet the above criteria and would be candidates for disposition without consideration because anticipated carrying costs exceed the current market value. The disposition of these properties would not adversely impact on funding of future program costs. They reported a total of 57 properties nationwide which fall within these parameters.

QUESTION 2: What are the procedures for establishing a veteran's debt after foreclosure and adjustments after sale of acquired properties?

RESPONSE 2: A veteran's debt is established when a GI home loan is foreclosed and the VA pays a claim under loan guaranty to the loan holder. The amount of the veteran's debt is the total due on the mortgage less the net value of the property at the time of foreclosure or our maximum guaranty, whichever is less. In no case is the debt more than the amount of the guaranty at the time the loan was made.

In about 80 percent of all foreclosures, the VA purchases the property from the holder for its net value. The acquired properties are subsequently resold. The resale price, adjusted for acquisition, management, resale and administrative costs, is then compared with the amount paid for the property. If a gain was made, the veteran's debt is reduced by that amount or eliminated. Currently, an adjustment is made in approximately 10 percent of the sales transactions.

In theory, as long as the VA retains ownership and offers the property for sale, there is a possibility the property will sell for a net gain and the veteran's debt would be adjusted. However, when the VA retains ownership the possibility also exists for VA to take a loss greater than the initial guaranty.

In practice, experience tells us listing prices are reduced, and the possibility of making a gain on the resale of one of our properties decreases with the length of time the property remains in the VA's inventory. Therefore, when properties are disposed of after being in VA's inventory for 12 months or more, it is unlikely the veteran's debt will be adjusted.

QUESTION 3: Explain the impact of the new underwriting standards on active duty military and what the VA has done to reduce this impact.

RESPONSE 3: The VA formally recognizes military benefits (described below) and allows at least a 5 percent reduction in the residual income required for military personnel and retirees applying for VA loan guaranty. This lessens the effect of the revised credit standards on such individuals.

Military benefits have always been considered when calculating an applicant's residual income. Benefits that result in tax free income, including funds for quarters, clothing, etc., are reflected in the underwriting process as "net income". Other military benefits were, until recently, treated generally as a compensating factor. As further recognition of the value of such benefits we recently authorized our field stations to reduce the residual income guidelines for military personnel by a minimum of five percent if it can be shown that the benefits are utilized on an ongoing basis. This reduction may also be applied to military retirees who enjoy the same benefits.

Attached is a copy of the VA credit standards, including the change that provided for a reduction of residual income criteria for military personnel.

TELEGRAPHIC MESSAGE

NAME OF AGENCY VACO WASH DC JAN 12 1987	PRECEDENCE ACTION: P INFO:	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED 1/9/87	FILE

FOR INFORMATION CALL

NAME G. FERENCE	PHONE NUMBER 233-2615	TYPE OF MESSAGE ☐ SINGLE ☒ BOOK ☐ MULTIPLE ADDRESS

THIS SPACE FOR USE OF COMMUNICATION UNIT

MESSAGE TO BE TRANSMITTED *(Use double spacing and all capital letters)*

TO: ALVARO

00/26/SUBJ: DVB CIRCULAR 26-80-11, REVISED, CREDIT STANDARDS,
CHANGE 1

1. PURPOSE. THIS CIRCULAR CHANGE PROVIDES DVB FIELD STATIONS AND LENDERS WITH INSTRUCTIONS CONCERNING APPLICATIONS FOR VA-GUARANTEED HOME LOANS PROCESSED ON BEHALF OF ACTIVE-DUTY SERVICEPERSONS ELIGIBLE FOR VA LOAN GUARANTY BENEFITS.

2. ACTIVE-DUTY MILITARY. BORROWERS ON ACTIVE DUTY RECEIVE CERTAIN BENEFITS THAT RESULT IN A LESSER EXPENDITURE FOR GOODS AND SERVICES THAN THE CIVILIAN POPULATION MAY INCUR. THESE BENEFITS INCLUDE COMMISSARY AND EXCHANGE FACILITIES AND RECREATION AND MORALE ACTIVITIES SUCH AS MOVIE THEATERS, TENNIS COURTS, SWIMMING POOLS, HOBBY SHOPS, CHILD CARE CENTERS, AND OFFICERS' OR NONCOMMISSIONED OFFICERS' CLUBS. IN MANY CASES, MEDICAL AND DENTAL FACILITIES MAY BE AVAILABLE TO ALL OF THE SERVICEPERSON'S DEPENDENT FAMILY MEMBERS. AS A RESULT, THE COST OF LIVING FOR THIS CLASS OF BORROWER IS MEASURABLY LESS THAN A CIVILIAN HAVING A SIMILAR INCOME AND SHOULD BE TAKEN INTO CONSIDERATION DURING THE UNDERWRITING PROCESS.

PAGE NO 1	NO. OF PGS 2	SECURITY CLASSIFICATION

STANDARD FORM 14
REVISED 11-80
GSA FPMR (41 CFR) 101-35.306

TELEGRAPHIC MESSAGE

NAME OF AGENCY	PRECEDENCE ACTION INFO.	SECURITY CLASSIFICATION
ACCOUNTING CLASSIFICATION	DATE PREPARED	FILE
FOR INFORMATION CALL		
NAME	PHONE NUMBER	TYPE OF MESSAGE ☐ SINGLE ☐ BOOK ☐ MULTIPLE ADDRESS

THIS SPACE FOR USE OF COMMUNICATION UNIT

MESSAGE TO BE TRANSMITTED *(Use double spacing and all capital letters)*

TO:

3. DVB CIRCULAR 26-80-11, REVISED, IS CHANGED AS FOLLOWS:

PAGE 13, PARAGRAPH 2E(12)(C), "TABLE OF RESIDUAL INCOMES BY REGION," LINE 10: AFTER "SEVEN." ADD "FOR LOAN APPLICATIONS IN WHICH EITHER THE BORROWER OR THE SPOUSE IS AN ACTIVE-DUTY SERVICEPERSON, THE ABOVE RESIDUAL INCOME FIGURES WILL BE REDUCED BY A MINIMUM OF 5 PERCENT IF THERE IS A CLEAR INDICATION THAT THE BORROWER OR SPOUSE WILL CONTINUE TO RECEIVE THE BENEFITS RESULTING FROM THE USE OF FACILITIES ON A NEARBY MILITARY BASE."

4. STATION RELEASES. STATIONS WILL REPRODUCE PARAGRAPHS 1 THROUGH 3 OF THIS CIRCULAR CHANGE FOR DISTRIBUTION TO ALL LENDERS, REFERRING TO LOCAL RELEASE DESIGNATIONS FOR THE PREVIOUS DISTRIBUTION OF THE EXTRACT OF DVB CIRCULAR 26-80-11, REVISED. THE CORRECT REFERENCE IN THE CIRCULAR EXTRACT IS PAGE 12, PARAGRAPH 2E(12)(C). COPIES OF THESE RELEASES NEED NOT BE FURNISHED TO CENTRAL OFFICE.

5. NO CONFIRMING COPY WILL BE ISSUED. 26/20

R.J. Vogel

PAGE NO	NO. OF PGS.	SECURITY CLASSIFICATION
2	2	

STANDARD FORM 14
REVISED 11-80
GSA FPMR (41 CFR) 101-35.306

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[illegible] 14-110

Department of Veterans Benefits
Veterans Administration
Washington, D.C. 20420

DVB Circular 26-80-11
Revised
September 5, 1986

CREDIT STANDARDS

PARAGRAPH PAGE

1. Introduction.. 3
2. Loan Analysis.. 3
a. Section A - Loan Data.. 3
b. Section B - Borrower's Personal and Financial Status... 4
c. Section C - Estimated Monthly Shelter Expenses......... 4
d. Section D - Debts and Obligations.................................... 4
(1) Long-Term vs. Short-Term Debts.................................... 5
(2) Requirements for Verification.................................... 5
(3) Job-Related Expense.. 6
e. Section E - Monthly Income and Deductions............. 6
(1) Verification.. 6
(2) Income Reliability.. 6
(3) Alimony, Child Support, Maintenance Payments.......... 7
(4) Military Quarters Allowance.................................... 8
(5) Commissions.. 8
(6) Self-Employment.. 9
(7) Recently Discharged Veterans.................................... 9
(8) Employment of Short Duration.................................... 10
(9) Rental Income.. 11
(10) Taxes and Other Deductions.................................... 11
(11) Mortgage Credit Certificates.................................... 11
(12) Balance for Family Support (Residual Income).......... 12

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PARAGRAPH PAGE

(13) Income Ratio.. 14

(a) Prior-Approval Loans................................. 14

(b) Automatic Loans...................................... 14

(c) Notation of Ratio.................................... 14

(d) GIL (Guaranteed/Insured Loan) Coding................. 15

(14) Credit.. 15

(a) Adverse Data... 16

(b) Prior VA Loans....................................... 16

(c) Bankruptcy... 16

(d) Wage Earner's Petition-Chapter 13 of Bankruptcy Law.. 17

(e) Absence of Credit History............................ 17

3. Lender Responsibility................................. 17

Exhibit A - VA Form 26-6393, Loan Analysis................ 20

Exhibit B - Table 4 - Size of Consumer Unit............... 21

Exhibit C - Computation of Residual Income................ 22

Exhibit D - Geographic Regions............................ 23

(NOTE: This contents page is intended as a working aid for lenders and, for that reason, does not reference all the paragraphs contained in this circular.)

1. Introduction

a. This circular contains the credit underwriting policy and procedures established by the Veterans Administration to be followed by all DVB field stations [and lenders processing VA-guaranteed loans.] It restates and updates policies and procedures previously contained in [DVB Circular 26-80-11, dated March 14, 1980, and changes 1 and 3 through 7. The major changes implemented by this circular are the provisions of (1) regional minimum required residual incomes and (2) a ratio indicator for use when underwriting VA-guaranteed loans.] All criteria set forth are equally applicable to loans for the purchase of manufactured homes and/or manufactured home lots and for loans submitted on either the prior-approval or automatic basis. [Any individual field station requirements not specifically stated in this circular must be approved by Central Office as a deviation. This includes requirements such as applicants having a certain number of months of PITI (principal, interest, taxes, and insurance) in cash reserves.

b. The provisions of this circular apply to prior-approval loans received in the station on or after October 1, 1986, and automatic loans processed by lenders on or after October 1, 1986. For prior-approval loans, field station personnel should recognize that lenders may have performed initial processing using the previously existing standards.]

c. Statutory credit criteria applicable to the Loan Guaranty program are specified in 38 U.S.C. 1810 which provides that a loan may not be made or guaranteed by the Veterans Administration unless the veteran is a satisfactory credit risk, and the contemplated terms of payment required in any mortgage to be given in part payment of the purchase price or the construction cost bear a proper relation to the veteran's present and anticipated income and expenses.

d. In making a credit determination for a VA-guaranteed loan, it should be borne in mind that a veteran's benefit is involved. The law intends that the veteran have this benefit provided that the requirements of the law are met. However, it serves no purpose to approve or make a loan to a veteran who will be unable to meet the repayment terms or is not a satisfactory credit risk. Such an approval would be, in fact, a disservice since it could well result in the veteran's losing the home, a debt being owed by the veteran to the U.S. Government, and an adverse effect on the veteran's credit standing.

2. Loan Analysis. VA Form 26-6393, Loan Analysis, is the form used to analyze an applicant's income and credit acceptability for a VA loan. Attached as exhibit A is a copy of that form which may be used by lenders for their own purposes if they wish. The following outlines VA credit standards in accordance with the format of VA's loan analysis sheet.

a. Section A - Loan Data. This section provides for showing essential data concerning the downpayment and amount of the proposed loan. In giving consideration to the amount of the downpayment, it should be understood that, while it is an influencing factor, the fact that a sizable downpayment will be made does not of itself qualify a loan if the borrower does not have the ability to meet the monthly payments on the loan or if the borrower is found to be an unsatisfactory credit risk. In considering the amount and duration of the loan, it may be found that, while the borrower cannot qualify for the amount sought from an income standpoint, he or she might qualify for a smaller amount or for the amount requested if the term of the loan were for a longer period.

b. Section B - Borrower's Personal and Financial Status. The number and ages of dependents have an important bearing on whether income after deduction of fixed charges is sufficient to support the family. Type and duration of employment of both the borrower and spouse are important as an indication of stability of their employment. The amount of liquid assets owned by the borrower or spouse, or both, is an important factor in determining that they have sufficient funds to close the loan, as well as being significant in analyzing the overall qualifications for the loan. (It is imperative that adequate cash assets from the veteran's own resources are verified to allow the payment of any difference between the sales price of the property and the loan amount, in addition to that necessary to cover closing costs, if the sales price exceeds the reasonable value established by VA (38 CFR 36.4336(a)(3)). Verifications must be no more than 90 days old to be considered valid. For loans closed on the automatic basis, this requirement will be considered satisfied if the date of the deposit verification is within 90 days of the date of the veteran's application to the lender. Current monthly rental or other housing expense is an important consideration when compared to that to be undertaken in connection with the contemplated housing purchase.

c. Section C - Estimated Monthly Shelter Expenses. It is important that the expenses shown in items 16 through 21 be estimated accurately based on property location and type of house; e.g., old or new, large or small, rather than using or applying a "rule of thumb" to all properties alike. Maintenance and utility amounts for various types of property should be realistically estimated. Local utility companies should be consulted for current rates. The age and type of construction of a house may well affect these expenses. In the case of condominiums or houses in a PUD (planned unit development), enter in item 21 the monthly amount of maintenance assessment payable to a homeowners association. If the amount currently assessed is less than the maximum provided in the covenants or master deed, and it appears likely that amount will be insufficient for operation of the condominium or PUD, the amount entered in item 21 will be the maximum the veteran could be charged. If it is expected that real estate taxes will be raised, or if any special assessments are expected, the increased or additional amounts should be used. In special flood hazard areas, include the premium for any required flood insurance in item 17.

d. Section D - Debts and Obligations

(1) Long-Term vs. Short-Term Debts. All known debts and obligations including any alimony and/or child support payments of the borrower and spouse will be shown in this section. To aid in identifying significant liabilities, place a check (✓) opposite any obligation to be deducted from the total income (item 40) in determining ability to meet the mortgage payments. The accounts so checked will generally be those of a relatively long term; i.e., 6 months or over. Other accounts for terms of less than 6 months must, of course, be considered in determining ability to meet family expenses. Certainly any account with less than 6 months' duration which requires payments so large as to cause a severe impact on the family's resources for any period of time must be considered in the loan analysis. For example, monthly payments of $100 on an auto loan with a remaining balance of $500 would be included in those obligations to be deducted (item 41) from the total income (item 40), regardless of the fact that the account can be expected to pay out in 5 months. It is clear that the applicant will, in this case, continue to carry the burden of those $100 payments for the first, most critical, months of the home loan. Similarly, when the credit information shows open accounts of several years' duration which are clearly of a revolving or open-end type, the regular monthly payment for such accounts should be considered as a long-term obligation to be deducted in item 41.

(2) Requirements for Verification. If the credit investigation reveals debts or obligations of a material nature which were not divulged by the applicant, lenders must be certain to obtain clarification as to the status of such debts from the borrower. A proper analysis is obviously not possible unless there is total correlation between the obligations claimed by the borrower and those revealed by a credit report or deposit verification. Conversely, significant debts and obligations reported by the borrower must be rated. If the credit report fails to provide necessary information on such accounts, lenders will be expected to obtain their own verifications of those debts directly from the creditors. Credit reports and verifications must be no more than 90 days old to be considered valid. For loans closed automatically, this requirement will be considered satisfied if the date of the credit report or verification is within 90 days of the date of the veteran's application to the lender. Of major significance are the applicant's rental history and outstanding or recently retired mortgages, if any, and lenders should be sure ratings on such accounts are obtained. A determination is necessary as to whether alimony and/or child support payments are required. Verification of the amount of such obligations should be obtained, although documentation concerning an applicant's divorce should not be obtained automatically unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant. If in the routine course of processing the loan application, however, direct evidence is received (e.g., from the credit report) that an obligation to pay alimony or child support exists (as opposed to mere evidence that the veteran was previously divorced), the discrepancy between the loan application and credit report can and should be fully resolved in the same manner as any other such discrepancy would be handled.

(3) Job-Related Expense. Known job-related expense is shown in item 30. This entry will include costs for any dependent care, union dues, group hospitalization insurance, significant commuting costs, etc. When a family's circumstances are such that dependent care arrangements would probably be necessary, it is important to determine the cost of such services in order to arrive at an accurate total of deductions.

e. Section E - Monthly Income and Deductions

(1) Verification. Income of the borrower and spouse which is derived from employment and which is considered in determining the family's ability to meet the mortgage payments, payments on debts and other obligations, and other expenses, must be verified. If the spouse is employed and will be contractually obligated on the loan, the combined income of both the veteran and spouse is considered when the income of the veteran alone is not sufficient to qualify him or her for the amount of the loan sought. (In other than community property States, if the spouse will not be contractually obligated on the loan, Regulation B, promulgated by the Federal Reserve Board pursuant to the Equal Credit Opportunity Act prohibits, as of June 30, 1976, any request for, or consideration of information concerning the spouse (including income, employment, assets, or liabilities), except that if the applicant is relying on alimony, child support, or maintenance payments from a spouse or former spouse as a basis for repayment of the loan, information concerning such spouse or former spouse may be requested and considered (see par. 2e(3)). In community property States, information concerning a spouse may continue to be requested and considered in the same manner as that for the applicant.) The standards applied to income of the veteran are also applicable to that of the spouse. There can be no discounting of income on account of sex, marital status, or any other basis prohibited by the Equal Credit Opportunity Act. Income claimed by an applicant that is not or cannot be verified cannot be given consideration when analyzing the loan. If the veteran or spouse has been employed by a present employer for less than 2 years, verification of prior employment covering a total of 2 years must be obtained unless it consisted of active military duty. Employment verifications must be no more than 90 days old to be considered valid. For loans closed automatically, this requirement will be considered satisfied if the date of the employment verification is within 90 days of the date of the veteran's application to the lender.

(2) Income Reliability. Income received by the borrower and spouse is to be shown in items 32, 38, and 39 of this section only if it can be concluded that the income will continue during the foreseeable future and thus should be properly considered in determining ability to meet the mortgage payments. There can be no discounting of income solely because it is derived from an annuity, pension or other retirement benefit, or from part-time employment. However, unless income from overtime work and part-time or second jobs can be accorded a reasonable likelihood that it is continuous and will continue in the foreseeable future, such income will not be shown in item 32. The

hours of duty and other work conditions of the applicant's primary job, and the period of time in which the applicant was employed under such arrangement must be such as to permit a clear conclusion as to a good probability that such employment can and will continue. Income from overtime work and part-time jobs not eligible for inclusion in item 32, may, if properly verified, be used to offset the payments due on debts and obligations of a relatively short term. Such income is described in the "Remarks" section. The amount of any pension or compensation and other income such as dividends from stocks, interest from bonds, savings accounts, or other deposits, rents, royalties, etc., will be reflected in item 39 if it is reasonable to conclude that such income will continue in the foreseeable future. Otherwise, it may be used only to offset short-term debts, as above. Certain military allowances, as to which likely duration cannot be determined, will also be used only to offset short-term obligations. Such allowances are: pro-pay, flight or hazard pay, and overseas or combat pay, all of which are subject to periodic review and/or testing of the recipient to ascertain whether eligibility for such pay will continue. Only if it can be shown that such pay has continued for a prolonged period and can be expected to continue because of the nature of the recipient's assigned duties, will such income be considered in item 32. For instance, flight pay verified for a pilot can be regarded as probably continuous and thus should be added to the base pay shown in item 32. Income derived from service in the reserves or National Guard may be shown in item 39 if the applicant has served in such capacity for a period of time sufficient to evidence good probability that such income will continue. The total period of active and reserve service may be helpful in this regard. Otherwise, such income may be used to offset short-term debts. There are a number of additional income sources whose contingent nature precludes their being considered as available for repayment of a long-term mortgage obligation. Temporary income items such as VA educational allowances and unemployment compensation do not represent stable and reliable income and will not be taken into consideration in determining the ability of the veteran to meet the income requirement of the governing law. As required by the Equal Opportunity Act Amendments of 1976, Public Law 94-239, income from public assistance programs is used to qualify a loan if it can be determined that the income will probably continue for a substantial fraction of the term of the loan; i.e., one-third or more. For instance, aid to dependent children being received for a 5-year old child that will continue until the child achieves majority would be used to qualify for a 30-year loan.

(3) Alimony, Child Support, Maintenance Payments. If an applicant chooses to reveal income from alimony, child support, or maintenance payments (after first having been informed that any such disclosure is voluntary pursuant to the Federal Reserve Board's Regulation B), such payments are considered as income to the extent that the payments are likely to be consistently made. Factors to be considered in determining the likelihood of consistent payments include, but are not limited to: Whether the payments are received pursuant to a written agreement or court decree; the length of time the payments have been received; the regularity of receipt; the availability of procedures to

compel payment; and the creditworthiness of the payor, including the credit history of the payor when available under the Fair Credit Reporting Act or other applicable laws. However, the Fair Credit Reporting Act (15 U.S.C. 1681b) limits the permissible purposes for which credit reports may be ordered, in the absence of written instructions of the consumer to whom the report relates, to business transactions involving the subject of the credit report or extensions of credit to the subject of the credit report.

(4) Military Quarters Allowance. With respect to off-base housing (quarters) allowances for service personnel on active duty, it is the policy of the DoD (Department of Defense) to utilize available on-base housing when possible. In order for a quarters allowance to be considered as income in the loan analysis, it is necessary that the applicant furnish written authorization from his or her commanding officer for off-base housing. This authorization should verify that quarters will not be made available and that the individual should make permanent arrangements for nonmilitary housing. DD Form 1747, Status of Housing Availability, is used by the Family Housing Office to advise personnel regarding family housing. Unless conditions of item e or f of DD Form 1747 apply, the applicant's quarters allowance cannot be considered. Of course, if the applicant's income less quarters allowance is sufficient, there is no need for assurance that the applicant has permission to occupy nonmilitary housing provided that a determination can be made that the occupancy requirements of the law will be met. Also, authorization to obtain off-base housing will not be required when certain duty assignments would clearly qualify service personnel with families for quarters allowance. For instance, off-base housing authorizations need not be obtained for service personnel stationed overseas who are not accompanied by their families, recruiters on detached duty, or military personnel stationed in areas where no on-base housing exists. In any case in which no off-base housing authorization is obtained, an explanation of the circumstances justifying its omission must be included with the loan application except when it has been established by the station of jurisdiction that the waiting lists for off-base housing are so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future. If stations make such a determination, a release shall be issued to inform lenders.

(5) Commissions. When all or a major portion of the veteran's income is derived from commissions, it will be necessary to establish the stability of such income if it is to be considered in the loan analysis for the repayment of the mortgage debt and/or short-term obligations. In order to assess the value of such income, lenders should obtain written verification of the actual amount of commissions paid to date, the basis for the payment of such commissions, and when commissions are paid; i.e., monthly, quarterly, semiannually, or annually. The length of the veteran's employment in this type of occupation is also an important factor in the assessment of the stability of the income. If the veteran has been employed for a relatively short time, the income should not normally be considered stable unless the product or service was the same or closely related to the product or service sold in an immediate prior position.

(6) Self-Employment. When a self-employed applicant has been in business a relatively short period of time (i.e., less than 2 years), sufficient information must be obtained to ascertain that the applicant has the training, experience and other qualifications necessary to be successful in the enterprise. For any self-employed person, verification of the amount of income is accomplished by obtaining a profit and loss statement for the prior fiscal year (12-month accounting cycle), plus the period year to date since end of the last fiscal year (or for whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities. The profit and loss statement and balance sheet will be prepared by an accountant based on the financial records. In some cases the nature of the business or the content of the financial statement may necessitate an independent audit certified as accurate by the accountant. Depending on the situation, this data may be on the veteran and/or the business. When it is otherwise not possible to determine a self-employed applicant's qualification from an income standpoint, the applicant may wish to voluntarily offer to submit copies of complete income tax returns, including all schedules for the past 2 years, or for whatever additional period is deemed necessary to properly demonstrate a satisfactory earnings record. If the business is a corporation or partnership, a list of all stockholders or partners showing the interest each holds in the business will be required. Some cases may justify a written credit report on the business as well as the applicant. When the business is of an unusual type and it is difficult to determine the probability of its continued operation, explanations as to the function and purpose of the business may be needed from the applicant and/or any other qualified party with the acknowledged expertise to express a valid opinion.

(7) Recently Discharged Veterans. Loan applications received from recently discharged veterans who have little or no employment experience other than their military occupation and from veterans seeking VA-guaranteed loans who have retired after 20 years of active military duty require special attention. The retirement income of the latter veterans in many cases is not sufficient to meet the statutory income requirements for the loan amount sought. Many have obtained full-time employment and have been employed in their new jobs for a very short time.

(a) It is essential in determining whether veterans in these categories qualify from the income standpoint for the amount of the loan sought, that the facts in respect to their present employment and retirement income be fully developed, and that each case be considered on its individual merits.

(b) In most cases the veteran's current income or current income plus his or her retirement income is sufficient. The problem lies in determining whether it can be properly concluded that such income level will continue for the foreseeable future. If the veteran's employment status is that of a trainee or apprentice, this will, of course, be a factor. In cases of the self-employed, the question to be resolved is whether there are reasonable prospects that the business enterprise will be successful and produce the required income. Unless a favorable conclusion can be made, the income from such source should not be considered in the loan analysis.

(c) If a recently discharged veteran has no prior employment history and the veteran's verification of employment shows he or she has not been on the job a sufficient time in which to become established, consideration should be given to the duties the veteran performed in the military service. When it can be determined that the duties a veteran performed in the service are similar or are in direct relation to the duties of the applicant's present position, such duties may be construed as adding weight to his or her present employment experience and the income from the veteran's present employment thus may be considered available for qualifying the loan, notwithstanding the fact that the applicant has been on his or her present job only a short time. This same principle may be applied to veterans recently retired from the service. In addition, when the veteran's income from retirement, in relation to the total of the estimated shelter expense, long-term debts and amount available for family support, is such that only minimal income from employment is necessary to qualify from the income standpoint, it would be proper to resolve the doubt in favor of the veteran. It would be erroneous, however, to give consideration to a veteran's income from employment for a short duration in a job requiring skills for which the applicant has had no training or experience.

(d) To illustrate the foregoing, it would be proper to use short-term employment income in qualifying a veteran who had experience as an airplane mechanic in the military service and the individual's employment after discharge or retirement from the service is in the same or allied fields; e.g., auto mechanic or machinist. This presumes, however, that the verification of employment included a statement that the veteran was performing the duties of the job satisfactorily, the possibility of continued employment was favorable and that the loan application is eligible in all other respects. An example of nonqualifying experience is that of a veteran who was an Air Force pilot and has been employed in insurance sales on commission for a short time. Most cases, of course, fall somewhere between those extremes. It is for this reason that the facts of each case must be fully developed prior to closing the loan automatically or submitting the case to VA for prior-approval.

(8) Employment of Short Duration. The provisions of subparagraph (7) above are similarly applicable to applicants whose employment is of short duration. Such cases will entail careful consideration of the employer's confirmation of employment, probability of permanency, past employment record, the applicant's qualifications for the position, and previous training, including that received in the military service In the event that such considerations do not enable a determination that the income from the veteran's current position has a reasonable likelihood of continuance, such income should not be considered in the

analysis. Applications received from persons employed in the building trades, or in other occupations affected by climatic conditions, should be supported by documentation evidencing the applicant's total earnings to date and covering a period of not less than 1 year. If the applicant works out of a union, evidence of the previous year's earnings should be obtained together with a verification of employment from the current employer.

(9) Rental Income. When the loan pertains to a structure with more than a one-family dwelling unit, the prospective rental income will not be considered unless (a) the veteran can demonstrate a reasonable likelihood of success as a landlord, and (b) sufficient cash reserves are verified to enable the veteran to carry the mortgage loan payments (principal, interest, taxes, and insurance) without assistance from the rental income for a period of at least 6 months. The determination of the veteran's likelihood of success as a landlord will be based on documentation of any prior experience in managing rental units, or other background involving both property maintenance and rental or other collection activities. The amount of rental income to be used in the loan analysis will be based on the prior rental history of the units as verified by the seller's financial records (e.g., prior years' tax returns) for existing structures or, for proposed construction, the appraiser's opinion of the property's fair monthly rental. Adjustments will be applied to reduce estimated gross rental income by proper allowances for operating expenses and vacancy losses. [Loans involving a structure with more than one family dwelling unit must be personally approved by the Chief of Loan Processing or higher authority. The Chief of Loan Processing or higher authority will sign as approving official in item 52].

(10) Taxes and Other Reductions. Deductions to be applied for Federal income taxes and Social Security may be obtained from the "Employer's Tax Guide" (Circular E) issued by the IRS (Internal Revenue Service). (For veterans receiving an MCC (mortgage credit certificate), see subpar. (11) below.) Any State or local taxes should be estimated or obtained from charts similar to those provided by IRS which may be available in those States with withholding taxes. A determination of the amount paid or withheld for retirement purposes should be made and entered in item 35. In determining whether a veteran-applicant meets the income criteria for a loan, some consideration may be given to the potential tax benefits the veteran will realize if the loan is approved. This can be done by using the instructions and worksheet portion of IRS Form W-4, Employee's Withholding Allowance Certificate, to compute the total number of permissible withholding allowances. That number can then be used when referring to IRS Circular E and any appropriate similar State withholding charts to arrive at the amount of Federal and State income tax to be entered in items 33 and 34 of VA Form 26-6393.

(11) Mortgage Credit Certificates

(a) The Internal Revenue Code, as amended by the Tax Reform Act of 1984, allows States and other political subdivisions to trade in all or part of their authority to issue mortgage revenue bonds for authority to issue MCC's. Veterans who are recipients of MCC's may realize a significant reduction in their income tax liability by receiving a Federal tax credit for a percentage of their mortgage interest payment on debt incurred on or after January 1, 1985.

(b) Lenders must provide a copy of the MCC to VA with the home loan application. The MCC will specify the rate of credit allowed and the amount of certified indebtedness; i.e., the indebtedness incurred by the veteran to acquire a principal residence or as a qualified home improvement or rehabilitation loan.

(c) For credit underwriting purposes, field stations will treat the amount of tax credit allowed to a veteran under an MCC as a reduction in the monthly income tax to be entered in item 33. For example, a veteran having a $600 monthly interest payment and an MCC providing a 30-percent tax credit would receive a $180 (30% x $600) tax credit each month. However, because the annual tax credit, which amounts to $2,160 (12 x $180), exceeds $2,000 and is based on a 30-percent credit rate, the maximum tax credit the veteran can receive is limited to $2,000 per year or $167 per month ($2,000 ÷ 12). As a consequence of the tax credit, the interest on which a deduction can be taken will be reduced by the amount of the tax credit to $433 ($600 - $167). This reduction should also be reflected in item 33.

(d) For underwriting purposes, the amount of the tax credit is limited to the amount of the veteran's maximum tax liability. If, in the above example, the veteran's tax liability for the year were only $1,500, the monthly tax credit would be limited to $125 ($1,500 ÷ 12).

(12) Balance for Family Support (Residual Income)

[(a) Based on data supplied in the CES (Consumer Expenditure Survey) published by the Department of Labor's Bureau of Labor Statistics, regional minimum balances for family support (residual income) have been developed. The most recent report, USDL 86-258, (one copy of which will be mailed to stations under separate cover by Central Office) was used and provides data in Table 4, Size of Consumer Unit, (exhibit B), on family expenditures for standard items such as food, health care, apparel and gasoline. The data provided for shelter expense, vehicle purchase and retirement contributions were not used since, when figuring an applicant's residual income, these are shown as separate items.

(b) After consultation with the Bureau of Labor Statistics and recognizing the fact that CES expenses are averages not minimums and include some high-income survey respondents, 75 percent of the amount for a family of four was used as a base. Different family compositions are recognized by comparing totals of the utilized expenditure items for each family size in exhibit B. The base figure was then adjusted by multiplying by the following regional adjustment factors: Northeast .993, Midwest .965, South .988, West 1.072. Exhibit C is an example of the computation used and exhibit D is a list of the States in each region.

(c) Based on the computation detailed above, regional minimum residual income figures were derived. Lenders underwriting VA-guaranteed loans on the automatic basis and stations must use these figures as a guide when underwriting a loan. It is recognized that the purchase price of the property may affect family expenditure levels in individual cases. While not considered in establishing the minimum residual incomes, this factor may be given consideration in the final determination in individual loan analyses. For example, a family purchasing in a higher-priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower-priced home purchase may not compel such expenditures.] It should [also] be clearly understood from this information that no single factor is a final determinant in any applicant's qualification for a VA-guaranteed loan. Once the balance for family support has been established, other important factors must be examined. One such consideration is the amount being paid for rental or housing expenses. If the shelter expense shown in item 22 is materially in excess of what is currently being paid, the case may require close scrutiny. In such cases, consideration should be given to (1) the ability of the borrower and spouse to accumulate liquid assets; i.e., cash and bonds, and (2) the amount of debts incurred while paying a lesser amount for shelter. For example, if an application shows little or no capital reserves and excessive obligations, it is not reasonable to conclude that a substantial increase in shelter expenses can be absorbed. Another factor of prime importance is the applicant's manner of meeting his or her obligations. A poor credit history alone is a basis for disapproving a loan, as is an obviously inadequate balance for family support. When one or the other is marginal, however, the remaining aspect must be closely examined to assure that the loan applied for will not exceed the applicant's ability or capacity to repay. [Therefore, it is important to remember that the figures provided below are to be used as a guide and should not automatically trigger approval or rejection of a loan.

TABLE OF RESIDUAL INCOMES BY REGION

	REGION			
	Northeast	Midwest	South	West
*Family Size				
1	411	399	409	443
2	646	627	643	697
3	786	763	781	847
4	873	848	868	941
5	951	924	946	1025

*For families with more than five members, add $75 for each additional member up to a family of seven.

(d) It is important that minimum residual incomes be based on valid indicators and applied as uniformly as possible. For this reason no requests from field stations for deviations from the provided residual guidelines will be considered by Central Office unless supported by detailed justification based on recognized economic data.

(13) Income Ratio. In addition to the residual income, a ratio based on total monthly debt payments (housing expense, installment debts, etc.) to gross monthly income will be considered. The use of a ratio is being implemented to provide greater scrutiny of high-risk loans. Like the residual income, the ratio will be used as a guide when making the approve/disapprove decision on a loan. The fact that a high ratio exists is not necessarily reason enough to reject a loan, but must be considered with all other factors when underwriting a loan. The ratio will be determined by taking the sum of PITI, homeowners and other assessments (items 15, 16, 17, 18 and 21) and obligations to be deducted from income (item 41) divided by the total of gross salary or earnings (item 32) and other compensation or net income (item 39). The ratio should be rounded to the nearest two digits; i.e., 35.6 percent would be rounded to 36 percent.

(a) Prior-Approval Loans. If the ratio is greater than 41 percent and the residual income (as determined in accordance with subpar. (12) above) does not exceed the station's minimum required by at least 20 percent (ratio must always be computed regardless of amount of the residual income), the following actions will be taken:

1. Ratio of 42 Percent to 45 Percent. Loan examiner will provide in item 47 (Remarks) a statement documenting the reasons for approval of the loan. The statement must not be perfunctory, but should list the compensating factors justifying approval of the individual loan.

2. Ratio of 46 Percent to 50 Percent. Secondary approval by the Chief, Loan Processing Section, is required, in addition to the statement of justification.

3. Ratio of 51 Percent or Greater. Approval by the Loan Guaranty Officer or Assistant Loan Guaranty Officer, in addition to the approval of the Section Chief and the statement of justification, is required.

(b) Automatic Loans. Lenders processing loans on the automatic basis are also required to underwrite loans using the ratio indicator. Loans that have a ratio in excess of 41 percent must be accompanied by a statement justifying the reasons for approval, signed by the underwriter's supervisor. Again, the statement must not be perfunctory, but should list the compensating factors justifying the approval of the individual loan.

(c) Notation of Ratio. Until the forms are revised, the ratio will be indicated in item 47 of VA Form 26-6393, (for loans not requiring VA Form 26-6393; i.e., obviously approvable or rejected, only the items necessary for calculations of the ratio need be completed) or for automatic loans in item 9 of VA Form 26-1820, Report of Home Loan Processed on Automatic Basis, or item 10c of VA Form 26-8149, Report of Automatic Manufactured Home and/or Lot Loan, after the dollar amount of the loan. The ratio should also be indicated on VA Form 26-1807, Docket Progress, section III, after the amount of the loan.

(d) GIL (Guaranteed/Insured Loan) Coding. Income ratio will be coded on VA Form 26-8795, Code Sheet-Rejected Applications, for rejected loans (transaction 07) and VA Form 26-1813, Code Sheet-Guaranty or Insurance, for approved and guaranteed loans (transaction 20).

1. Rejected Loans (Transaction 07). Code a two-position income ratio in item 15 (City Code) of VA Form 26-8795 on all transaction 07 submissions. Ratio should be rounded to the nearest whole percentage point with ranges between 08 and 99 accepted. City code will not be collected on rejected applications for the foreseeable future.

2. Guaranteed Loans (Transaction 20). Code a two- or four-position income ratio in item 24 (Percentage of Discount) of VA Form 26-1813, for all prior-approval loan applications received by stations on or after October 1, 1986, and automatic loans in which applications were made to the lender on or after October 1, 1986. Leave item 24 blank if income ratio is not available. (Percent of discount will no longer be collected.) Edits will accept income ratios between 08 and 80 and can be coded as follows:

Income Ratio	Code
32	*3200 or 32
31.67	3200 or 32
34.03	3400 or 34

*Coding four positions will reduce the possibility of data errors. Percentage will be retained as a four-position field in the GIL master record.

NOTE: City Code (VA Form 26-8795) and Percent of Discount (VA Form 26-1813) must continue to be coded through September 1986 to prevent rejects under existing edits. Stations must annotate "FINAL SEPTEMBER BATCH" on the last batch transmittal submitted for September processing.]

(14) Credit. The conclusion reached as to whether or not the borrower and spouse are satisfactory credit risks is indicated in item 45 of VA Form 26-6393 and must be based on a careful analysis of the available credit data. Effective October 28, 1975, Regulation B promulgated by the Federal Reserve Board pursuant to the Equal Credit Opportunity Act required that lenders include, in evaluating creditworthiness on a veteran's request, the credit history, when available, of any account reported in the name of the veteran's spouse or former spouse which the veteran can demonstrate reflects accurately the veteran's willingness or ability to repay.

(a) Adverse Data. If the analysis develops any derogatory credit information and, despite such facts, it is determined that the borrower and spouse are satisfactory credit risks, the basis for the decision will be explained in the "Remarks" section. If a borrower and spouse have debts outstanding which have not been paid timely, or which they have refused to pay, the fact that the outstanding debts are paid after the acceptability of the credit is questioned does not, of course, alter the fact that the record for paying debts has been unsatisfactory. With respect to unpaid debts, lenders may take into consideration a veteran's claim of bona fide or legal defenses. This is not applicable when the debt has been reduced to judgment.

(b) Prior VA Loans. When the veteran's certificate of eligibility or loan application indicates use of VA-guaranteed loan entitlement in connection with a prior loan, the lender to which the veteran is currently applying for an additional loan is on notice that VA-loan experience with the applicant is an element to be considered. Such experience, [especially if it is recent,] may be so unfavorable that further credit is not warranted. Since credit experience with veterans' guaranteed or insured loans may not be reported by lenders to credit agencies, credit reports obtained in connection with the evaluation of a subsequent loan may be deficient to that extent. Therefore, lenders processing loans on an automatic basis [should develop evidence through the originator or holder of the previous loan(s) on the status and experience of such loan(s). If information cannot be obtained, lenders may contact the VA regional office through which the loan(s) was obtained.] Failure to do so will subject the lender to the risk of a possible determination by the VA that when all the facts and circumstances that were readily available are considered, the conclusion of the lender relative to compliance with 38 U.S.C. 1810(b)(3) ought not be recognized as reasonable and proper and that the loan should be considered ineligible for guaranty.

(c) Bankruptcy. When the credit information shows that the borrower or spouse has been adjudicated bankrupt under the "straight" liquidation and discharge provisions of the bankruptcy law, this would not in itself disqualify the loan. However, in such cases it is necessary to develop complete information as to the facts and circumstances concerning the bankruptcy. Generally speaking, when the borrower or spouse, as the case may be, has been regularly employed (not self-employed) and has been discharged in bankruptcy within the last 2 or 3 years, it probably would not be possible to determine that the borrower or spouse is a satisfactory credit risk unless both of the following requirements are satisfied:

1. The borrower or spouse has obtained consumer items on credit subsequent to the bankruptcy and has met the payments on these obligations in a satisfactory manner over a continued period, and

2. The bankruptcy was caused by circumstances beyond control (e.g., unemployment, prolonged strikes, medical bills not covered by insurance) of the borrower or spouse. The circumstances alleged must be

verified. If a borrower or spouse is self-employed, has been adjudicated bankrupt, and subsequently obtains a permanent position, a finding as to satisfactory credit risk may be made provided there is no derogatory credit information prior to self-employment, there is no evidence of derogatory credit information subsequent to the bankruptcy, and the failure of the business was not due to misconduct. A bankruptcy discharged more than 5 years ago may be disregarded. A bankruptcy discharged between 3 and 5 years ago may be given some consideration, depending upon the circumstances of the bankruptcy, and submission of evidence that the veteran has been paying his or her obligations in a timely manner.

(d) Wage Earner's Petition - Chapter 13 of Bankruptcy Law. A wage earner's petition under chapter 13 of the Bankruptcy Law filed by borrower or spouse is indicative of an effort to pay their creditors. Some plans may provide for full payment of debts while others arrange for payment of scaled down debts. Regular payments are made to a court-appointed trustee over a 2- to 3-year period (or up to 5 years in some cases). When the borrowers have made all payments in a satisfactory manner, they may be considered as having reestablished satisfactory credit. When they apply for a home loan before completion of the payout period, favorable consideration may nevertheless be given if at least three-fourths of the payments have been made satisfactorily and the Trustee and Bankruptcy Judge (Referee) approve of the new credit.

(e) Absence of Credit History. The fact that recently discharged veterans may have had no opportunity to develop a credit history will not preclude a determination of satisfactory credit. Similarly, other loan applicants may not have established credit histories as a result of a preference for purchasing consumer items with cash rather than credit. There are also cases in which individuals may be genuinely wary of acquiring new obligations following bankruptcy, consumer credit counseling (debt proration), or other disruptive credit occurrence. The absence of the credit history in these cases will not generally be viewed as an adverse factor in credit underwriting. However, before a favorable decision is made for cases involving bankruptcies or other derogatory credit factors, efforts should be made to develop evidence of timely payment of noninstallment debts such as rent and utilities. It is anticipated that this special consideration in the absence of a credit history following bankruptcy would be the rare case and generally confined to bankruptcies which occurred over 3 years ago.

3. Lender Responsibility

a. Lenders are responsible for developing all credit information; i.e., for obtaining verifications of employment and deposit, credit reports, and for the accuracy of the information contained in the loan application. Verifications of employment and deposit and requests for credit reports and/or credit information must be initiated and received by the lender directly. If the real estate broker (or agent) is to perform these functions, acting in the capacity of a duly authorized agent for the lender in a particular case, the report(s) must go directly to the lender and this fact must be disclosed by appropriately completing the required certification on the home loan application or report.

b. Lenders originating loans on an automatic basis are responsible for determining and certifying to the VA that the loan meets all applicable statutory and regulatory requirements. When VA Form 26-1820 is submitted to the VA by a lender authorized to process such loans, the lender affirmatively certifies that the loan was made in full compliance with the law and with Loan Guaranty regulations. This certification is considered to include, but is not limited to, the following:

(1) The veteran is a satisfactory credit risk;

(2) The terms of payment required by the loan contract bear a proper relation to the veteran's present and anticipated income and expenses; and

(3) The lending institution making the certification is in fact the lender and not merely acting as the closing facility or instrumentality for a lender not authorized to process loans on an automatic basis; thus, in effect, circumventing the prior-approval requirement applicable to loans to be originated by a lender not authorized to process loans on an automatic basis.

c. As indicated in paragraph 1c, 38 U.S.C. 1810 requires a determination that the financial status of the veteran, with respect to his or her present and anticipated income and expenses, warrants a reasonable conclusion that the loan may be repaid from the veteran's income and that the veteran is a satisfactory credit risk. The purpose of the law is defeated, and both the VA and the lender are negligent in their responsibilities, if the veteran is allowed to undertake an obligation which is beyond his or her ability to discharge. Such action may ultimately result in foreclosure and distress for the veteran and expense for the Government and lender. The uniform and conscientious application of these credit standards is, therefore, of potential benefit to all concerned, and lenders' cooperation in this regard is essential.

4. Stations will also apply these credit underwriting standards to transactions involving sales of acquired properties, release of liability, and substitution of entitlement.

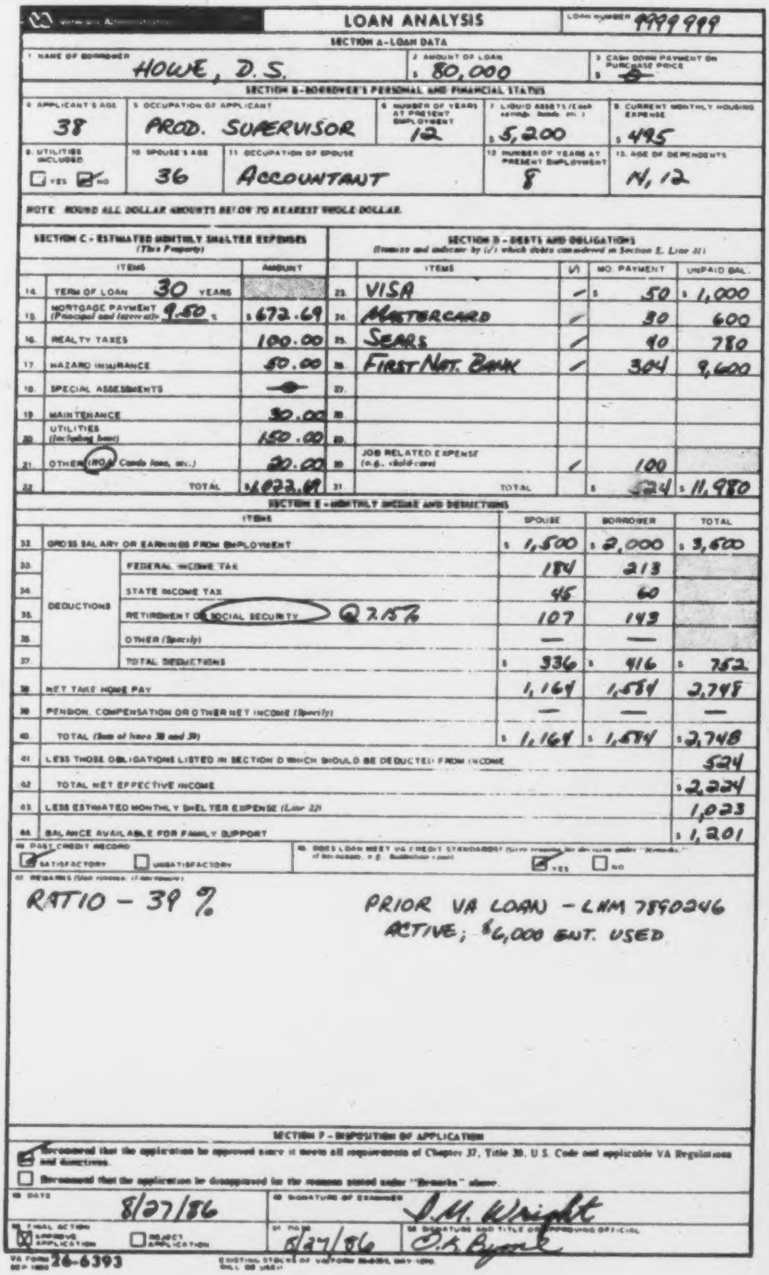
5. Extracts. Central Office will provide extracts of this circular to nonsupervised lenders approved for automatic lending with approval letters. Field stations will receive extracts of this circular for distribution to all lenders presently on mailing lists. Stations shall distribute extracts with VA Forms 26-6393 and releases specifying that lenders may wish to reproduce VA Form 26-6393 for their internal use. The release should also cancel all local releases issued in conjunction

with [DVB Circulars 26-80-11, dated March 14, 1980, and changes thereto, and 26-85-18, Balance Available for Family Support Guidelines. Copies of these releases need not be sent to Central Office.]

6. RESCISSIONS: [DVB Circulars 26-80-11, dated March 14, 1980, and changes 1 and 3 through 7, and 26-85-18 and change 1.]

R. J. VOGEL
Chief Benefits Director

Distribution: CO: RPC 2021
SS(26A1) FLD: DVBFS, 1 each (Reproduce and distribute based on RPC 2021)



Veterans Administration

LOAN ANALYSIS

LOAN NUMBER 9999999

SECTION A - LOAN DATA

1 NAME OF BORROWER HOWE, D.S.	2 AMOUNT OF LOAN $ 80,000	3 CASH DOWN PAYMENT ON PURCHASE PRICE $ -0-

SECTION B - BORROWER'S PERSONAL AND FINANCIAL STATUS

4 APPLICANT'S AGE 38	5 OCCUPATION OF APPLICANT PROD. SUPERVISOR	6 NUMBER OF YEARS AT PRESENT EMPLOYMENT 12	7 LIQUID ASSETS (Cash, savings, bonds, etc.) $ 5,200	8 CURRENT MONTHLY HOUSING EXPENSE $ 495
9. UTILITIES INCLUDED ☐ YES ☑ NO	10 SPOUSE'S AGE 36	11 OCCUPATION OF SPOUSE ACCOUNTANT	12 NUMBER OF YEARS AT PRESENT EMPLOYMENT 8	13. AGE OF DEPENDENTS 14, 12

NOTE: ROUND ALL DOLLAR AMOUNTS BELOW TO NEAREST WHOLE DOLLAR.

SECTION C - ESTIMATED MONTHLY SHELTER EXPENSES (This Property)			SECTION D - DEBTS AND OBLIGATIONS (Itemize and indicate by (✓) which debts considered in Section E, Line 41)				
	ITEMS	AMOUNT		ITEMS	(✓)	MO. PAYMENT	UNPAID BAL.
14.	TERM OF LOAN 30 YEARS		23.	VISA	✓	$ 50	$ 1,000
15.	MORTGAGE PAYMENT (Principal and Interest) 9.50 %	$ 672.69	24.	MASTERCARD	✓	30	600
16.	REALTY TAXES	100.00	25.	SEARS	✓	40	780
17.	HAZARD INSURANCE	50.00	26.	FIRST NAT. BANK	✓	304	9,600
18.	SPECIAL ASSESSMENTS	-0-	27.				
19.	MAINTENANCE	30.00	28.				
20.	UTILITIES (including heat)	150.00	29.				
21.	OTHER ([✓ HOA] Condo fees, etc.)	20.00	30.	JOB RELATED EXPENSE (e.g., child care)	✓	100	
22.	TOTAL	$ 1,022.69	31.	TOTAL		$ 524	$ 11,980

SECTION E - MONTHLY INCOME AND DEDUCTIONS

	ITEMS		SPOUSE	BORROWER	TOTAL
32.	GROSS SALARY OR EARNINGS FROM EMPLOYMENT		$ 1,500	$ 2,000	$ 3,500
33.	DEDUCTIONS	FEDERAL INCOME TAX	184	213	
34.		STATE INCOME TAX	45	60	
35.		RETIREMENT OR [✓ SOCIAL SECURITY] @ 7.15%	107	143	
36.		OTHER (Specify)	—	—	
37.		TOTAL DEDUCTIONS	$ 336	$ 416	$ 752
38.	NET TAKE HOME PAY		1,164	1,584	2,748
39.	PENSION, COMPENSATION OR OTHER NET INCOME (Specify)		—	—	—
40.	TOTAL (Sum of lines 38 and 39)		$ 1,164	$ 1,584	$ 2,748
41.	LESS THOSE OBLIGATIONS LISTED IN SECTION D WHICH SHOULD BE DEDUCTED FROM INCOME				524
42.	TOTAL NET EFFECTIVE INCOME				$ 2,224
43.	LESS ESTIMATED MONTHLY SHELTER EXPENSE (Line 22)				1,023
44.	BALANCE AVAILABLE FOR FAMILY SUPPORT				$ 1,201

45 PAST CREDIT RECORD ☑ SATISFACTORY ☐ UNSATISFACTORY

46 DOES LOAN MEET VA CREDIT STANDARDS? (Give reasons for decision under "Remarks," if necessary, e.g., borderline case) ☑ YES ☐ NO

47 REMARKS (Use reverse, if necessary)

RATIO - 39 %

PRIOR VA LOAN - LHM 7890246
ACTIVE; $6,000 ENT. USED

SECTION F - DISPOSITION OF APPLICATION

☑ Recommend that the application be approved since it meets all requirements of Chapter 37, Title 38, U.S. Code and applicable VA Regulations and directives.

☐ Recommend that the application be disapproved for the reasons stated under "Remarks" above.

48 DATE 8/27/86	49 SIGNATURE OF EXAMINER D.M. Wright
50 FINAL ACTION ☒ APPROVE APPLICATION ☐ REJECT APPLICATION	51 DATE 8/27/86
	52 SIGNATURE AND TITLE OF APPROVING OFFICIAL D.K. Byrne

VA FORM 26-6393
SEP 1980

EXISTING STOCKS OF VA FORM 26-6393, MAY 1976, WILL BE USED.

September 5, 1986

DVB Circular 26-80-11
Revised
[Exhibit B

Table 4. Selected characteristics and average annual expenditures of urban consumer units classified by SIZE OF CONSUMER UNIT, Consumer Expenditure Interview Survey, 1984

Item	All consumer units	One person	Two persons	Three persons	Four persons	Five persons	Six or more persons
Number of consumer units (in thousands)	74,886	21,022	21,435	12,349	11,434	5,417	3,226
Number of sample interviews	23,043	6,735	6,476	3,810	3,346	1,643	1,033
Consumer unit characteristics:							
Income before taxes 1/	$24,578	$14,748	$24,947	$28,660	$31,370	$33,194	$30,935
Size of consumer unit	2.6	1.0	2.0	3.0	4.0	5.0	6.8
Age of reference person	46.2	47.8	52.2	43.3	39.8	41.7	43.4
Number in consumer unit							
Earners	1.4	.7	1.2	1.8	1.9	2.2	2.1
Vehicles	1.9	.9	1.8	2.4	2.5	2.6	2.7
Children under 18	.7	(2)	.1	.7	1.6	2.4	3.6
Persons 65 and over	.3	.3	.5	.1	.1	.1	.1
Percent homeowner	60	34	68	70	75	73	71
Average annual expenditures	$21,788	$13,220	$21,351	$25,955	$28,421	$29,546	$28,032
Food	3,391	1,916	3,172	3,924	4,526	3,125	5,476
Alcoholic beverages	299	311	307	301	271	305	259
Housing	6,626	4,252	6,628	7,624	8,754	8,575	7,444
Shelter	3,747	2,669	3,744	4,180	4,877	4,632	3,642
Owned dwellings	2,188	890	2,211	2,725	3,456	3,134	2,356
Rented dwellings	1,171	1,549	1,101	1,000	939	1,003	926
Other lodging	388	229	432	455	482	494	361
Utilities, fuels and public services	1,679	977	1,662	1,951	2,137	2,398	2,501
Household operations	333	147	300	445	538	486	359
Housefurnishings and equipment	868	460	923	1,049	1,202	1,068	941
Apparel and services	1,192	722	1,064	1,429	1,587	1,810	1,762
Transportation	4,385	2,427	4,291	5,533	5,662	5,939	6,232
Vehicles	1,873	957	1,809	2,494	2,434	2,505	2,846
Gasoline and motor oil	1,047	559	983	1,282	1,399	1,563	1,649
Other vehicle expenses	1,176	649	1,175	1,467	1,547	1,618	1,455
Public transportation	288	262	324	291	282	254	282
Health care	899	547	1,110	908	1,035	1,027	1,064
Entertainment	1,040	600	923	1,263	1,517	1,575	1,241
Personal care	205	115	221	234	256	286	251
Reading	140	107	148	153	161	164	139
Education	312	260	205	359	408	564	404
Tobacco	225	126	223	283	277	306	338
Miscellaneous	311	300	260	351	397	270	339
Cash contributions	740	513	778	1,026	744	912	574
Personal insurance and pensions	2,023	1,025	2,020	2,567	2,825	2,688	2,510
Life and other personal insurance	302	147	295	413	397	452	343
Retirement, pensions, social security	1,721	878	1,725	2,153	2,428	2,236	2,167

1/ Income values are derived from "Complete income reporters" only; see glossary.
2/ Value less than .05.

Table 4. SIZE OF CONSUMER UNIT]

DVB Circular 26-80-11 September 5, 1986
Revised
[Exhibit C

COMPUTATION OF RESIDUAL INCOME

The total of the countable expense items in table 4 of the Consumer Expenditure Survey for a family of four is $14,060. Multiplied by .75, this results in an annual amount of $10,545. Divided by 12, this equals $878 for a basic residual income for a family of four. Based on a comparison of expenditures by family size, the following basic residual income would apply for other family compositions:

Veteran only - $413

Veteran and one dependent - $650

Veteran and two dependents - $790

Veteran and three dependents - $878

Veteran and four dependents - $957

Veteran and five dependents - $1,032*

Veteran and six dependents - $1,107*

*Extrapolated from CES table

These amounts were then multiplied by the regional adjustment factors to arrive at minimum residual incomes. For instance, a family of four in the western region would require a minimum residual income of $941 ($878 basic residual income x 1.072 regional adjustment factor).]

[Exhibit D

GEOGRAPHIC REGIONS

Northeast - Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont

Midwest - Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin

South - Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia and West Virginia

West - Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming]

WRITTEN QUESTIONS FROM SENATORS EVANS AND ADAMS TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

1. Section 302 of Public Law 99-166, instructs the VA to issue annual reports outlining a five year strategic plan for the operation and construction of medical facilities. Specifically, any proposed change in the mission of an existing facility must be included, as well as the necessary steps to achieve the change and the expected dates for completion. The purpose of this report is to promote the utilization of a national picture in developing methods for cost-efficient health care services and to ensure that decisions are not made in isolation.

This report was due in June of 1986, why have we not received it?

Response: The FY 1987-FY 1991 Five Year Medical Facility Development Plan is undergoing final review. Delays were incurred in switching from a Construction Needs Assessment to a Needs Assessment/Operating Plan. The Committees were provided the Plan on March 6, 1987.

Question: 2. In 1980, the Veterans Administration developed an initiative intended to provide for more efficient and cost-effective Healthcare services for veterans. As a result of Medical District Initiative Program Planning (MEDIPP), planners advocated a mission change for the Walla Walla VAMC. This change would eliminate the in-patient facility and leave the existing outpatient clinic.

Does the VA have additional plans for similar mission changes as part of a national design?

Answer: There have been no directives issued to Medical Districts calling for specific mission changes as part of a national plan. Each Medical District, however, has received planning guidance which emphasizes the need to provide a balanced continuum of care within the district taking into account cost-effective alternatives to expensive institutional care. To accomplish that, each Medical District is required to conduct a rigorous mission analysis for each medical center in the district with a view towards eliminating redundancies and duplications.

Question: 3. In December of 1985, the VA announced its intention to study the possibility of changing the mission of the Walla Walla Veterans hospital. It was not until March of 1986, after the Western Region had actually proposed the change, that a meeting was held to inform interested citizens of the proposal. In addition, it was not until late summer when the congressional delegation and local constituents were provided with some of the specific facts justifying the decision.

Is this process an appropriate way to deal with a mission change affecting 74,000 veterans and the surrounding community?

Answer: The VA's planning process is dynamic and involves constituents in planning. The decision to change the mission of the Walla Walla VAMC from a full service hospital to an outpatient clinic was completed according to the methods in place at the time of the decision. In 1985, the VA began the integration of Medical District based plans into larger organizational units of Region based medical program plans. At that time, we determined it to be more appropriate to wait until Region plans were formulated before briefing VA constituents on these internally developed plans. The Western Region developed its 1985 plan in early December, and constituents were informed of these plans as expeditiously as possible. We now request Districts to inform constituents of proposed planning actions, with the specific caveat that the District plans may be modified at the Region, Department or Agency level.

Question 4: While very few details of the mission change have been revealed, the Spokane VAMC will assume approximately 75% of the Primary Service Area's workload. Spokane is 160 miles from Walla Walla. The Tri-Cities area, representing the greatest population of veterans in the PSA, is 50 miles from the existing facility. Under this proposal, however, area veterans will be forced to travel three times as far to seek in-patient care. Seattle, Boise and Portland, the remaining facilities which are targeted to assume portions of the patient workload of Walla Walla, range from 230 to 260 miles away.

4A. Did you take into consideration the particularly rural setting of this facility.

Answer: The rural nature of the Walla Walla community and the historical presence of a veteran health care facility were key factors in recommendations that an outpatient clinic be maintained in this setting. It was not considered practical to replace the existing physical plant at a cost of $23 million to maintain inpatient services to the small number of veterans in this area. The current veteran population of 65,000 is expected to decline to 50,000 by the year 2000. Approximately 35-40% of the veterans reside at the extremes of Walla Walla's service area (Yakima and Lewiston communities) and are equidistant to VAMCs Seattle and Spokane, respectively. The increased travel time of one to three hours for veterans residing East or South of the city of Walla Walla is acknowledged and regretted. Most veterans are treated on an outpatient basis, however, and will continue to be seen in the Walla Walla area. For this smaller number of veterans who live in these central communities and require hospitalization, there will be additional hardship on them and their families to be cared for outside of the Walla Walla area. At times this is even now unavoidable, as almost 28% of the veterans hospitalized from the Walla Walla service area are currently cared for in VAMCs other than the Walla Walla VAMC. This is due to both referrals from Walla Walla to other VAMCs and patient selection of hospitals further from their homes than the Walla Walla VAMC.

Question 4B: In light of the 90% reduction in travel benefits under the Administration's FY88 budget, how will travel costs be covered?

Answer: The planned reduction in travel is 50%, rather than 90%, with costs for travel beyond 100 miles continuing to be reimbursed, as well as emergency travel, interfacility travel, special made transportation, and travel in connection with compensation and pension examinations. However, we will seek to alleviate as much hardship on veterans as possible who are required to travel from the proposed VA Clinic located in Walla Walla to other VA Medical Centers.

Question 4C: How will the VA meet the needs of veterans who cannot afford travel costs?

Answer: We stress the continued presence of an outpatient clinic in Walla Walla, and the potential of special made transportation services between the Clinic and the Spokane VAMC.

Question 5: The Veterans Administration expects to save $7.4 million per year by eliminating the in-patient facility whose operating budget is $11,344,000.

5A. How do you account for this number?

Answer: The calculation of the recurring savings to the Agency is summarized below:

Total Recurring Budget of Walla Walla	$11,344,000
Retention of Outpatient Services	-2,000,000
Transfer of Resources to Spokane VAMC	-1,500,000
Additional Transportation Costs	-126,000
Additional Contract Hospital Costs (For emergent referrals)	-272,000
Total Available for Reprogramming	$7,446,000

In addition to the recurring dollar saving, the previously planned $23 million major construction project for inpatient services will be replaced with a dramatically reduced capital improvement project to combine the clinic space with ancillary services such as laboratory and radiology.

Question 5B: What are the intial costs of the mission change?

Answer: The one time costs of the mission change are summarized below:

Relocating 87 employees	$2,001,000
Severance Pay for 60 emplys.	413,000
Unemployment Comp for 60	228,000
Building Renovation	1,900,000
Total one Time Cost	$4,542,000

Question 6: If the VA was seriously considering eliminating the in-patient facility at Walla Walla, why did you spend $1,050,000 for expansion and repairs just completed in October of 1986?

Answer: Construction projects approved for Walla Walla VAMC, since the mission change has been under consideration, have been projects necessary to maintain patient safety and comply with health standards. Major construction projects recently completed were approved and funded prior to the mission change. The decision to change the mission of the Walla Walla VAMC has only recently (December, 1986) been approved by the Administrator. Until December, 1986 the conversion of Walla Walla to an Outpatient Clinic was a recommendation from the Director of the Western Region, appoved by the Chief Medical Director, and under consideration by the Administrator.

Question 7: For nearly ten years, the Washington State Department of Veterans Affairs (DVA) has studied the option of building a 100 bed state nursing home facility adjoining the Walla Walla hospital. In January of 1984, a plan was conceived between the VA and Washington DVA which included the possibility of sharing services as a cost-saving measure. The recent decision to change the mission understandably makes the nursing home much less attractive for the state.

Out of approximately 610,000 veterans in Washington State, the average age is 67 years. By early 1990's there will be an overwhelming demand for a facility to meet the needs of Washington's aging veterans.

Have you weighed the benefits of uniting nursing care services with the in-patient facility in relation to the potential benefits of changing the mission?

Answer: The option of converting existing beds to nursing home care beds was considered. There is relatively little need for VA Nursing Home beds in the Walla Walla community. Compared to other areas of the State, District, Region and even nationally, the veteran population would not require VA beds above that which could be purchased in the community.

We understand discussions continue in the State of Washington concerning placement of a state Nursing Home facility on VA grounds.

Question: Please provide a breakdown of the cost savings (and sources thereof) that you estimate the proposed mission change would entail for each of the fiscal years 1988 through 1992.

Answer: Cost savings for FY 1988 - 1992 are indicated below:

FY 1988

Total Recurring Budget	$11,344.000
Inpatient Cost During Transition	(5,376,192)
Retention of Outpatient Services	(2,776,808)
Transfer of resources to Spokane, increased transportation costs, increased contract hospital	(940,000)
One-time cost of separation/relocation	(2,642,000)
FY 1988 Cost	$391,000

FY 1989

Total recurring budget	$11,344,000
Retention of outpatient services	(2,000,000
Transfer of resources to Spokane	(1,500,000)
Additonal transportation costs	(126,000)
Additional Contract Hospital costs (For emergent referrals)	(272,000)
Cost Building Renovation Outpatient Area	(1,900,000)
FY 1989 savings	$5,546,000

FY 1990 - FY 1992

Total recurring budget	$11,344,000
Retention of outpatient services	(2,000,000
Transfer of resources to Spokane	(1,500,000)
Additional transportation costs	(126,000)
Additional Contract Hospital costs	(272,000)
FY 1990 - FY 1992 Annual Savings	$7,446,000

In addition to the recurring dollar saving, the planned $23 million major construction project to maintain modern inpatient services will be replaced with a drastically reduced capital improvement project to combine the clinic space with ancillary services such as laboratory and radiology.

WRITTEN QUESTIONS FROM SENATOR MITCHELL TO THE VETERANS'

ADMINISTRATION AND THE RESPONSES

QUESTION 1: According to the VA's FY 87 Budget, spending for Payments to States" in FY 87 was projected to be $9.8 million. The VA's FY 88 Budget estimates FY 87 spending at $9.3 million. I have been led to believe the $500,000 difference represents reprogramming within the Department of Veterans' Benefits (DVB) to accommodate personnel salary increase.

QUESTION 1a: Is that the case?

RESPONSE 1a: The $9.3 estimate for "Payments to States" is the current estimate. The Department of Veterans Benefits 1987 estimate includes a January 1987 pay raise, which was absorbed. Program adjustments were made to accomodate these costs. These adjustments were pursued with the intention of minimizing the impact on the delivery of services to veterans. The change in Payments to States was one of these adjustments.

QUESTION 1b: Have other DVB budgetary items been reduced by a similar 5% to accommodate personnel salary increases?

RESPONSE 1b: The adjustments to other objects in the DVB budget are shown below. The adjustments were made in areas which will have little, if any, adverse effect on the delivery of benefits to veterans. The percentages listed show the difference between the SAA adjustment and others.

Revision of 1987 Budget

	Dollars	Percentage
Payroll	$1,486,000	.8
Travel	500,000	13.2
Printing	679,000	14.5
Supplies	300,000	5.3
Modernization	3,000,000	12.0
Equipment	1,115,000	16.2
Common Service	120,000	2.0
	$7,200,000	

QUESTION 1c: When were SAAs notified of the proposed reprogramming?

RESPONSE 1c: On January 14, 1987, the President and the Vice President of the National Association of State Approving Agencies (NASAA) met with VA officials. At this meeting, NASAA officials were informed of the agencies decision and the impact on State Approving Agencies (SAA) funding. In addition, VA officials also explained how the decision was made.

QUESTION 1d: SAAs have signed contracts with the VA for FY 87. Will this reduction cause the VA to fail to meet its contractual obligations to States in FY 87?

RESPONSE 1d: At this time (2/9/87) 58 of the 69 letter contracts have been executed. These letter contracts contain a termination clause, which states in part that the government may terminate the performance of work contained in the contract, when it's in the best interest of the government. The VA will adjust the contracts to accomplish the objectives of the program and stay within available funds.

QUESTION 2: According to the VA's FY 1987 Budget, actual spending for "Payments to States" in FY 1985 was $11.7 million. The VA proposes to spend $8.4, a 28% cut in this account between FY 1985 and FY 1988. The VA's FY 1988 Budget document (General Operating Expenses Programs, Volume IV, page 21-24) says the decline in spending "reflects an anticipated decrease in approvals and supervisory visits consistent with the recent declines in workload."

QUESTION 2A: Please provide me a breakdown of program participation (Chapters 30, 31, 32, 34, 35 of Chapter 38, and 106 of Title 10) for Fiscal Years 1985-88.

RESPONSE 2A: Attachment A provides the requested program participation data. The data for FYs 1987 and 1988 are estimates.

Attachment A

PROGRAM PARTICIPATION

Fiscal Year	1985	1986	1987	1988
Ch. 30	0	1	800	19,400
Ch. 31	26,901	25,776	25,000	24,500
Ch. 32	48,110	63,221	71,200	74,000
Ch. 34	402,281	307,637	233,600	182,900
Ch. 35	61,958	54,233	48,400	43,300
Ch. 106	1,160	31,678	87,800	123,600

QUESTION 2: According to the VA's FY 1987 Budget, actual spending for "Payments to States" in FY 1985 was $11.7 million. The VA proposes to spend $8.4, a 28% cut in this account between FY 1985 and FY 1988. The VA's FY 1988 Budget document (General Operating Expenses Programs, Volume IV, page 21-24) says the decline in spending "reflects an anticipated decrease in approvals and supervisory visits consistent with the recent declines in workload."

QUESTION 2B: Please provide me the number of participating institutions and training establishments (Chapters 30, 31, 32, 34, 35 of Chapter 38, and 106 of Title 10) for Fiscal Years 1985-88.

RESPONSE 2B: Attachments B-1 through B-4 provide data on the number of educational institutions and training establishments which have a veteran or eligible person enrolled and receiving Chapter 34 or 35 benefits at the end of the month. The data for the months February 1987 through September 1988 are estimates. There is a 38% reduction in the number of institutions between FY 1985 and 1988. At present we do not have management reports which provide similar data for Chapters 32, 30 and 106. Specifications for a consolidated report for all Chapters have been developed and will be implemented in the future. It is our belief that most Chapter 32, 30 and 106 trainees will not create additional work for the states as they are or will be enrolled in institutions which also have Chapter 34 and 35 trainees and that the number of institutions which have only Chapter 32, 30 and 106 trainees is small. It should also be noted that programs for Chapter 31 trainees are approved by the VA, not the State approving agencies.

Attachment B-1

FISCAL YEAR 1985	IHL	NCD	OJT	TOTAL
October 1984	4,173	2,675	4,471	11,319
November	4,253	2,687	4,415	11,355
December	3,809	2,656	4,451	10,916
January 1985	4,015	2,489	3,997	10,501
February	4,301	2,497	3,933	10,731
March	4,227	2,508	3,743	10,478
April	4,225	2,544	3,690	10,459
May	3,124	2,349	3,651	9,124
June	2,991	1,940	3,516	8,447
July	2,976	1,906	3,415	8,297
August	2,650	1,886	3,428	7,964
September	3,848	2,059	3,370	9,277

Attachment B-2

FISCAL YEAR 1986	IHL	NCD	OJT	TOTAL
October 1985	4,048	2,241	3,298	9,587
November	4,154	2,291	3,222	9,667
December	3,574	2,203	3,176	8,953
January 1986	3,909	2,182	3,070	9,161
February	4,183	2,217	3,023	9,423
March	4,050	2,162	2,939	9,151
April	4,010	2,139	2,920	9,069
May	2,841	1,943	2,896	7,680
June	2,820	1,674	2,836	7,330
July	2,880	1,602	2,653	7,135
August	2,335	1,577	2,523	6,435
September	3,642	1,822	2,430	7,894

Attachment B-3

FISCAL YEAR 1987	IHL	NCD	OJT	TOTAL
October 1986	3,837	1,900	2,327	8,064
November	not available			
December	3,414	1,859	2,296	7,569
January 1987	3,690	1,826	2,225	7,741
February	4,070	1,969	2,325	8,364
March	3,880	1,864	2,307	8,051
April	3,805	1,799	2,310	7,914
May	2,582	1,607	2,297	6,486
June	2,659	1,445	2,289	6,393
July	2,788	1,347	2,061	6,196
August	2,057	1,302	1,857	5,216
September	3,445	1,612	1,752	6,809

Attachment B-4

FISCAL YEAR 1988	IHL	NCD	OJT	TOTAL
October 1987	3,680	1,602	1,680	6,962
November	not available			
December	3,233	1,556	1,651	6,440
January 1988	3,539	1,565	1,662	6,766
February	3,960	1,748	1,788	7,496
March	3,717	1,606	1,811	7,134
April	3,611	1,513	1,827	6,951
May	2,347	1,329	1,821	5,497
June	2,508	1,247	1,847	5,602
July	2,699	1,133	1,602	5,434
August	1,813	1,075	1,367	4,255
September	3,259	1,427	1,263	5,949

QUESTION 3:	On January 23, 1987, Donald Sweeney, President of the National Association of State Approving Agencies, wrote the Administrator regarding proposed FY 1987 and 1988 reductions in SAA funding. Please provide me with a copy of the Administrator's response and any supporting documents.
RESPONSE 3:	Attached is a copy of the Administrator's response to Mr. Sweeney's letter concerning reductions in funding for State approving agencies in FY's 1987 and 1988.

MAR 13 1987

Mr. C. Donald Sweeney
President
National Association of State
  Approving Agencies
Maine Department of Educational
  and Cultural Services
State House Station #23
Augusta, ME 04333

Dear Mr. Sweeney:

This is in reply to your recent letters concerning funding for State approving agencies in FYs 1987 and 1988.

In December 1986, the Veterans Administration absorbed unanticipated increased costs for FY 1987. Each Department reviewed their operating budgets to identify accounts which could be reduced to help offset the increased costs. The Department of Veterans Benefits reduced payments to State approving agencies as well as funds for travel, printing, supplies, equipment, and modernization. State approving agency payments were reduced 5.1 percent while the Department's travel was reduced 13.2 percent, printing 14.5 percent, supplies 5.3 percent, equipment 16.2 percent, and modernization 12 percent.

Definitive cost-reimbursement contracts were not offered prior to the start of FY 1987 because of the uncertainty associated with the funds available for State approving agency activities. State approving agencies were informed that the proposed funds allocated for FY 1987 were subject to change. In the event that funding might change, Letter Contracts were issued limiting the amount of money to be spent and reimbursed and the Veterans Administration's liability. Therefore, the subsequent adjustment to State approving agency funds should not be construed as a violation of the contracting procedures followed for FY 1987.

The funds budgeted for State approving agencies in FY 1988 are sufficient to maintain the quality of veterans' education and training programs. Although a slight increase in veteran enrollments is expected, a corresponding increase in State approving agency workload is not. The slight increase is attributable to trainees pursuing programs under Chapters 30 and 106. In all likelihood the trainees will enroll in colleges and universities which are already approved for veterans' training and in which veterans and eligible persons are currently enrolled. The continuing decline in job training establishments and vocational and technical schools will more than offset any increase in workload at the colleges and universities.

We recognize and appreciate the difficult challenges facing both State and Federal governments. We hope to meet these challenges with the cooperation and assistance of State officials. It is essential that we work together to control spending and ultimately reduce the deficit.

We appreciate your concern and will do everything possible to maintain adequate payments to State approving agencies in the coming years.

Sincerely,

THOMAS K. TURNAGE
Administrator

DISPATCHED
MAR 19 1987
ADMINISTRATOR'S OFFICE

WRITTEN PREHEARING QUESTIONS FROM SENATOR MURKOWSKI TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

PART A

QUESTION 1: The FY 1988 budget requests funds only for the collocation of the VARO and VAMC in Wichita, KS. Does the VA anticipate that, based on the plan required by Public Law 99-576, any additional collocation projects will be commenced during FY 1988, and if so, will the costs be absorbed from existing resources and what would the costs be?

RESPONSE 1: The Department has scheduled the colocation of the Regional Office in Little Rock, AR in FY 1988. The cost of this project is two-fold, $2 million will be required to renovate the building and it is estimated that an additional $1.1 million will be needed to complete the move. These costs will primarily be funded from FY 1986 minor construction funds. This project has been planned for some time.

In response to Public Law 99-576 the Department of Veterans Benefits, in conjunction with the Office of Facilities, is preparing a schedule for proposed future colocation projects.

QUESTION 2a: Please provide an analysis of the budgetary effect of the proposed sale of vendee loans "without recourse" for FY 1988 through FY 1990, including:

How much revenue will be foregone as a result of the greater risk to the purchaser?

RESPONSE 2a: The FY 1988 budget submission contains a provision for the sale of vendee loans without recourse (repurchase agreement). We estimate that these loans will be sold at an average discount of 20 percent. If these loans could be sold with a repurchase agreement, we would estimate a discount of approximately two percent. Therefore, the net result is that the VA will realize 18 percent less from the sale of these loans. However, in selling these loans without recourse VA avoids significant future expenses connected with the repurchase of defaulted loans. A number of these loans must be terminated and the properties reacquired, and resold again. Over the long term it is in the government's best interest to take upfront losses on loans made and eliminate long-term servicing and administrative costs, and long term liability associated with repurchase agreements. Overtime we estimate that the initial differential in selling prices will net out against savings from not having to repurchase and service bad loans.

QUESTION 2b: What are the expected savings as a result of the reduction in the number of loans repurchased and when will these savings be realized?

RESPONSE 2b: The following chart shows the cost of repurchasing loans, both for vendee loans sold without recourse and those sold with a repurchase agreement (amounts in thousands). The savings will continue to over $90 million annually by 1992-3. Additional savings will be realized through lower property management, sales and servicing costs.

FISCAL YEAR	WITH RECOURSE	WITHOUT RECOURSE*	SAVINGS
1988	$95,667	$93,763	$ 1,904
1989	92,684	74,147	18,537
1990	94,658	56,795	37,863

* All loans sold prior to FY 1988 are subject to repurchase.

QUESTION 2c: What is the basis for these estimates?

RESPONSE 2c: The discount takes into account the increased risks, costs, and profit requirements that purchasers assume when buying loans without recourse agreements. In addition, we consulted with various investment bankers to obtain their views on the marketability of such loans.

QUESTION 3a. The VA has proposed the sale of its loan portfolio.

What would be the short-term (for FY 1988-1990) budget effects of such a sale?

RESPONSE 3a. The short-term effect of the VA's proposal to sell $900 million of its loan portfolio ($300 million each fiscal year 1988-1990) will be an estimated increase of $630 million in receipts credited to the Loan Guaranty Revolving Fund ($210 million each year).

QUESTION 3b. What would be the long-term effects?

Please include all assumptions relating to your analysis, including the projected increase of the net operating losses of the loan guaranty revolving fund beyond the FY 1988 loss of $208 million, as a result of the sale of portfolio loans without recourse.

RESPONSE 3b. The long-term effect would be that the portfolio of loans would no longer contain $900 million worth of older loans and future repayments associated with these loans would be decreased. However, most of the loans targeted for sale were loans in default, or ones that had bad payment records. Therefore, reduced repayments would not significantly impact the funds available resources in the future. Resources previously used to service these loans could then be diverted to other uses, such as the servicing of guaranteed loans.

QUESTION 4a: The home loan guaranty program commitment level for FY 1988 is estimated to be $29.4 billion.

Please provide a full analysis of how this commitment level was determined including all assumptions relating to your analysis.

RESPONSE 4a. The commitment level for FY 1988 is based upon several factors. At the time the estimate was prepared, month-to-month trend data was collected and analyzed on appraisal requests, loan applications received, and closed loan activity. This data provides a good starting point to estimate future loan volume. In addition, we had been experiencing heavy refinancing activity and expected this trend to diminish over the next few years as veterans were already taking advantage of the lower interest rates. This can be seen by comparing the relatively constant commitment level projected for FY 1987 and then the slight decrease in FY 1988.

QUESTION 4b: Last year two statutory adjustments were necessary to increase the limitation on this program due to the sequestration of new loan guarantee commitments. Please explain what, if any, additional administrative measures have been implemented by the VA to:

i. project the estimated commitment levels for this program, and

ii. monitor actual levels of commitments made.

RESPONSE 4b: The Loan Authorization Tracking System (LATS) was implemented in March 1986 to obtain more timely information concerning the status of loan commitments. We now require lenders to obtain an authorization number prior to closing a VA loan. This system enables us to more closely monitor and project commitment levels for the future.

QUESTION 5: What costs has DVB been required to "absorb" in each of the fiscal years 1984 through 1987?

RESPONSE 5: DVB absorbed increased payroll costs in the years 1984 through 1987. Absorption of these costs is based on a VA reassessment of budgeted versus more current estimates and is standard practice across the Federal government. The actual amounts absorbed for payroll increases included the following:

1984: $3,399,000
1985: $4,352,000
1986: $ -0-
1987: $7,700,000

In addition to payroll costs, DVB has absorbed $1,500,000 in unanticipated 1987 costs resulting from the National Association of Radiation Survivors (NARS) litigation. Also, VA has requested supplemental funding to fully fund expected increased costs due to the Federal Employee Retirement System (FERS) in 1987.

QUESTION 5a: What costs will DVB have to "absorb" in FY 1988?

RESPONSE 5a: The Department's 1988 GOE request does not contain any absorptions at this time.

QUESTION 5b: What have been the effects of these "absorbed" costs on services to veterans?

RESPONSE 5b: The VA believes that no deterioration in the quality of services provided to veterans has resulted from these absorptions.

Question 6: I am interested in specific information regarding the VA's readjustment counseling contract care program. In FY 1983, Congress appropriated $11.22 million for this program; $6 million was expended. In FY 1986, $5.5 million was appropriated, and $5.3 million was expended. Clearly this program has never reached the size originally estimated.

Answer: Although $6 million of $11.22 million was expended in FY 1983, the amount of expenditures rose to $9.4 million in FY 1984 and 7.25 million in FY 1985. The amount authorized in FY 1985 was $8 million, with $5.5 million authorized for FY 1986 and FY 1987.

Question 6a: How are the recipients of this money chosen and how often is their effectiveness and the effectiveness of the program reviewed?

Answer: Contract providers are chosen through a competitive bidding process administered by the Supply Service at the local medical facility, with professional guidance from Readjustment Counseling, and one or more of the following additional Services: Psychiatry, Psychology and/or Social Work. Obtaining contract providor status requires the meeting of requirements for specialized training and experience in Post-Traumatic Stress Disorder and other readjustment problems in Vietnam era veterans, which is a unique initial screen for effectiveness. The effectiveness of services provided is reviewed on a case by case basis, by the referring vet center or medical facility, in that authorization must be renewed every fifteen visits. This provides a significant degree of ongoing opportunity for quality monitoring on the part of the VA referror. In addition, at least one position--Assistant Regional Manager for Contract Services--in each of the seven medical regions, is devoted to oversight of the contracts program, which includes quality control and administrative monitoring activities.

Question 6b: Who determines the initial need for contract readjustment counseling and when a veteran no longer needs the counseling?

Answer: Initial need is determined by the VA referror, who may be a vet center team leader or counselor, a social worker, psychologist, psychiatrist, or psychiatric nurse at a medical facility. The referrer or designee determines when services are no longer needed.

Question 6c: i Pursuant to the requirements of Section 110 of Public Law 98-528, has the Chief Medical Director reviewed the ability of the VA-approved contract therapists to provide PTSD diagnosis and treatment?

Answer: Section 110(b)(2) of Public Law 98-558 requires the Special Committee on Post-Traumatic Stress Disorder established by the Chief Medical Director to assess the VA's capacity to provide diagnostic and treatment services for PTSC, including the use of contract therapists.

Question 6c: ii What is the result of that review?

Answer: To date the special committee has focused on in-house programs and has not specifically addressed the contract Readjustment Counseling Program. We would note that before awarding a contract, the contractor's ability to provide treatment for PTSD is assessed by the Readjustment Counseling Program and appropriate VA medical center staffs.

Question 6d: What is the scope of treatment allowed under this program?

Answer: The scope of treatment is the same as counseling services provided by vet centers, i.e., readjustment counseling, including individual, group, and family counseling or psychotherapy, etc.

Question 6e: Who is responsible for monitoring the appropriateness of the treatment received, the need for treatment, and the qualifications of the contract providers?

Answer: The VA referrer (as specified above), the vet center team leader (if different from the referrer), and the Assistant Regional Manager for Contracts are responsible for program oversight. In addition, at a small number of sites where the contracts program is operated by a medical facility which does not have a vet center, the medical facility COTR is responsible in lieu of a team leader.

Question 6F: How has the program changed since 1983?

Answer: Regional positions for monitoring have been added, and the number of contract providers has decreased somewhat. An operational circular was produced and sent to the field, and tighter controls over numbers of visits and quality of service have been instituted.

Question 6g: What are the differences in the contract services provided from those provided by Vet Center personnel?

Answer: Contract providers are hired to provide counseling and psychotherapy, not outreach. Otherwise, there are no differences by policy.

QUESTION: 7.a. Do you have any facilities which are currently overstaffed?

7.b. If so, where, and in what specialities?

ANSWER: It is DM&S policy to reallocate FTEE from overstaffed operational functions to rectify understaffing in other operational functions. An analysis of the DM&S staffing data does not indicate overstaffed DM&S facilities.

Question: 8.a. What specifically is being done by the Veterans Administration to collect co-payments owed to the VA by Category C veterans?

Answer: Collection of copayments from Category C veterans who agreed to make such payments in exchange for VA care is accomplished in the same manner as collection of any other benefit related indebtedness. Collection procedures are consistent with the collection standards outlined in Title 4, Code of Federal Regulations, Chapter 2, Federal Claims Collection Standard (General Accounting Office - Department of Justice).

Guidelines for collection of benefit related debts are summarized in an Administrative Debt Collection Procedures Guide. These guidelines require that the VA send the veteran three request letters. They allow use of various methods to locate veterans, exploration of compromise offers, and review of installment payment plans. Cases in which the Agency fails to collect a debt may be referred to the Department of Justice or VA District Counsels for civil litigation, if appropriate. Debts may be written-off for various reasons including: small value of debt, lack of any assets owned by the debtor, or inability to locate the debtor.

As an incentive for veterans to pay the indebtedness in a timely manner, the VA charges interest on the debt, and a monthly administrative collection fee if the debt is not liquidated within 30 days of the first demand for payment. The annual interest rate being charged on the principal amount of debts created during Fiscal Year 1987 is 8.25%. The collection fee being assessed during Calendar year 1987 is 63¢ per month.

Question: 8.b. What amount an percentage of these co-payments have been paid and what amount and percentage are outstanding? Please provide a regional breakdown and an aging schedule for outstanding co-payments.

Answer: For the period July 1, 1986, to December 31, 1986, $1,790,452 Category C copayments have been collected, $10,033,604 remains outstanding. This represents 15% of the total billed as collections and 85% of the Category C copayments are outstanding. No regional breakdown or aging schedule is available for outstanding copayments.

Question: 8.c. What is the estimate on the amount of money that will be collected through co-payments in FY 1988?

Answer: The FY 88 budget does not request funding for Category C veterans, although Category C veterans will be treated in locations where resources remain available. We are not anticipating co-payments in FY 88.

Question: 9.a. What is the status of the VA's implementation of third party reimbursement and by what date will the implementation be fully operational?

Answer: Training was conducted in September 1986 for personnel from VA health care facilities to implement the third-party provisions of P.L. 99-272 for inpatient services. Staff from District Counsel offices are receiving similar training in February-March, 1987. Software for DHCP to assist in tracking third-party reimbursement cases has been developed and will be available to VA medical centers in mid-March, 1987. Most VA medical centers are actively involved in negotiating provider contracts with health insurance carriers.

Question: 9.b. How much money has been collected to date from third party payers?

Answer: For the period July 1 - September 30, 1986, $82,550 was collected from third party payers. In the first quarter of Fiscal Year 1987 (Oct.-Dec. 1986), $332,964 was collected from third party payers.

Question: 9.c. What percentage of the third party reimbursements have been paid and what percentage are outstanding?

Answer: In the first quarter of Fiscal Year 1987, the VA established $3,039,007 in third party receivables (amount billed) and collected $332,964 or 10 percent of the amount bills. The balance remains outstanding.

Question: 9.d. Please provide a regional breakdown and an aging schedule for outstanding payments.

Answer: No regional breakdown or aging schedule is available.

Question: 10a. Legislation was recently enacted on February 12, 1987, (Public Law 100-6) to provide $50 million to the homeless. That legislation contains an amendment I authored to provide $5 million of those funds to contract halfway-house services for chronically mentally ill institutionalized and homeless veterans. This program is intended to be administered by the VA's Mental Health and Behavioral Sciences Department. What are the VA's views on making available domiciliary beds to this program to allow the VA to provide some of these services in-house?

Answer: The use of domiciliary beds for chronically mentally ill (C.M.I.) institutionalized veterans is an excellent suggestion. Many domiciliary programs currently provide care for this population of veterans. Where additional beds are available, referrals are encouraged.

-For the homeless C.M.I. who are currently being treated in our acute care facilities, referrals to domiciliaries are feasible and encouraged.

The most difficult group to work with are the non-institutionalized homeless C.M.I. who remain in shelters and on the streets. This population tends to be reluctant to leave their immediate environment and may well resist our efforts to refer them to domiciliaries.

Question: 10b. The DAV has offered, informally, to provide outreach assistance with their vans and personnel to assist in identifying homeless veterans who may be eligible for VA assistance. Do you believe that new legislation is necessary to allow you to formalize an outreach agreement with a veterans organization to fulfill the goals of contracting for halfway-house treatment for chronically mentally ill veterans?

Answer: No new legislation seems indicated. The Department welcomes collaborating with the DAV as well as other groups currently working with the homeless.

Question: 11a. Have staff been designated to implement the quality assurance provisions included in Public Law 99-166?

11b. If so, how many have been so designated?

Answer: 11a. Several staff members of the Office of Quality Assurance have been assigned part-time responsibility to implement the quality assurance provisions of Public Law 99-166 in addition to their regularly assigned duties.

11b. Approximately five staff have been involved on an interim part-time basis in the absence of a full-time project director. Recruitment efforts should soon be underway to hire such a person.

Question: 12. What is the VA's current policy concerning the payment of beneficiary travel?

Answer: VA expects to publish a final regulation on beneficiary travel shortly. The policy, as descrbied in the proposed rule, will include continuing eligibility for medically indicated special modes of travel such as wheelchair, van or ambulance, and for VA interfacility transfers.

Question: 13. Last year the Congress appropriated $6 million for site acquisition for a proposed new hospital in Palm Beach, Florida. The FY 1988 budget requests $13 million for the Palm Beach project.

13.a.i. How will that money be spent?

Answer: Of the $19 million requested through FY 1988 ($6 million appropriated in FY 1987 and $13 million requested in FY 1988), $12 million is allocated for site acquisition and preparation and $7 million is allocated for design.

Question: 13.a.ii. How much of that $13 million will be needed for additional site acquisition money?

Answer: The current estimated cost of the actual land acquisition is approximately $5.0 million. The funding provided in FY 1987 should be sufficient to cover land acquisition costs.

Question: 13.b. The FY 1986-1990 Five Year Medical Facility Construction Needs Assessment projected a need for 625 hospital and 240 nursing home care beds in Palm Beach. The total cost of the project was estimated at $138 million. The FY 1988 budget request specifies a 400 bed hospital and no nursing home care beds, yet the estimated cost only decreased by $23 million. Please explain why?

Answer: The $138.0 million estimate shown in the 1986 Needs Assessment was prepared in 1984 as a magnitude estimate based upon limited information.

In 1986 conceptual estimates were prepared based upon completed space sheets and concept drawings. The more complete cost estimates indicate that the same project would cost $167.0 million.

Because of changing veteran demographic and utilization patterns, the scope of the project has been reduced to include 400 medical beds, a laundry, and a 400 car parking garage. The new total project cost is estimated to be $115.0 million. Therefore, the true cost reduction is $52.0 million.

Question: 14. The VA has requested $14.2 million for design funds. Which construction projects will receive design money from this account?

Answer: Specific projects to be funded through the FY 1988 Design Fund are under review. For projects included in the 1989 construction budget request, working drawing contracts, funded from the FY 1988 Design Fund, will be awarded in early 1988.

Question: 15. Over the past ten fiscal years, how much has been spent to design new or replacement hospitals? Please indicate a total cost and the cost per project.

Answer: Over the past ten fiscal years, the following new or replacement projects have had design monies spent on them:

	($ in thousands)	
Location	Design Cost	Total Estimated Cost
Augusta(Downtown Division), GA	$ 2,543	$ 39,553
Augusta(Uptown Division), GA*	6,339	94,729
Baltimore, MD*	9,800	112,000
Bay Pines, FL	6,940	113,985
Bronx, NY	7,719	115,937
Columbia, SC	33	25,626
Dayton, OH*	5,288	82,500
Houston, TX*	17,353	244,905
Little Rock, AR	8,180	142,450
Loma Linda, CA	3,082	64,177
Martinsburg, WV	4,620	75,717
Minneapolis, MN	7,950	189,000
Mountain Home, TN*	4,220	62,054
New York, NY*	6,111	95,400
North Chicago, IL*	5,828	93,000
Palm Beach, FL*	7,000	115,000
Philadelphia, PA*	8,060	116,122
Pittsburgh, PA*	3,272	52,851
Portland, OR	13,670	154,100
Richmond, VA	6,380	122,087
San Antonio, TX	1,334	37,103
San Diego, CA	1,675	40,257
Seattle, WA	7,915	120,340
West Los Angeles(Wadsworth Division), CA	3,526	85,805
	$148,838	$2,394,698

NOTE: The design cost includes working drawings and reimbursements and is a part of the "Total Estimated Cost."

*Since these projects are still on-going, the design cost represents what is currently estimated to be the total cost for design at completion.

Answer: 15. Continued:

The following chart reflects the number of hospital beds, nursing home care beds, domiciliary beds, and total beds currently authorized or the number that will be authorized upon completion of the new or replacement hospitals listed above:

Location	Hosp Auth Beds	NHC Auth Beds	Dom Auth Beds	Total Auth Beds
Augusta(Downtown Division), GA	420	0	0	420
Augusta(Uptown Division), GA	590	60	0	650
Baltimore, MD	324	0	0	324
Bay Pines, FL	670	240	200	1,110
Bronx, NY	702	120	0	822
Columbia, SC	460	120	0	580
Dayton, OH	476	284	780	1,540
Houston, TX	927	120	0	1,047
Little Rock, AR	1,305	200	0	1,505
Loma Linda, CA	436	120	0	556
Martinsburg, WV	377	120	520	1,017
Minneapolis, MN	725	120	0	845
Mountain Home, TN	530	58	630	1,218
New York, NY	1,030	0	0	1,030
North Chicago, IL	529	500	0	1,029
Palm Beach, FL	400	0	0	400
Philadelphia, PA	538	240	0	778
Pittsburgh, PA	160	240	0	400
Portland, OR	550	120	0	670
Richmond, VA	694	120	0	814
San Antonio, TX	704	120	0	824
San Diego, CA	701	60	0	761
Seattle, WA	428	60	0	488
West Los Angeles(Wadsworth Division), CA	832	357	300	1,489
	14,508	3,379	2,430	20,317

Question: 16. With respect to the newly established parking garage revolving fund:

16.a. $30 million was appropriated to this fund for FY 1987, to remain available without fiscal year limitation, until expended. The budget submission indicates in the construction authorization status report for active projects, that the full $30 million appropriation would be allocated for parking garage projects as follows:

Baltimore, MD	$ 9.0 M
Durham, NC	9.1 M
San Francisco, CA	4.0 M
Syracuse, NY	7.9 M
	$30.0 M

16.a.i. During which fiscal years will these funds be obligated?

Answer: Baltimore, MD; San Francisco, CA; and Syracuse, NY; are currently scheduled to be obligated in FY 1987. Durham, NC, is scheduled to be obligated in FY 1988.

The FY 1988 budget request also indicates that authorization for three additional parking garage construction projects will be requested as follows:

Atlanta, GA	$ 7.8 M
Huntington, WV	4.1 M
Palm Beach, FL	4.3 M
	$16.2 M

for a combined total authorization of $46.2 million.

The FY 1988 budget also requests the total $4.1 million cost of the Huntington, WV, parking garage construction project to be funded by new budget authority to be appropriated to the revolving fund in FY 1988.

Question: 16.a.ii. Why is new budget authority being requested for the Huntington, WV, parking garage construction project? Please provide a full analysis including any contingency plans considered, in the event that new budget authority is not appropriated to the revolving fund until the VA demonstrates that parking fees collected will be sufficient to cover a substantial portion of future parking garage construction projects.

Answer: The VA is currently reviewing options for implementing parking fees at VA medical centers. Although the budget indicates that no funds will be collected in FY 1987 and only $200 thousand will be collected in FY 1988, these numbers were used because no reliable estimates had been formulated, and the VA wants to ensure that funds are available for the Huntington project so that the larger Huntington project remains on schedule.

If new budget authority is not appropriated to the revolving fund, the parking structure at Huntington, WV, will have to be deleted or other alternatives will have to be examined. Deletion of the parking garage would result in a shortage of approximately 330 spaces at the Huntington Medical Center. There is insufficient land for surface parking. Transferring the required monies from the major working reserve will further deplete the working reserve which is critically low in funds.

Question: 16.a.iii. Will new budget authority also be requested for the Atlanta, GA, and Palm Beach, FL, projects, and if so, please specify whether full or partial funding will be requested as new budget authority?

Answer: Future budgets will base new budget authority requests on more complete data regarding projected receipts from fees. Any shortfall between fees projected and obligations projected will require new budget authority. Since fees have yet to be implemented, we cannot project how much budget authority will be necessary to fund these projects.

Question: 16.a.iv. In which fiscal year will construction funds for the Atlanta, GA, and Palm Beach, FL, parking garage construction projects be requested?

Answer: Tentative Agency priorities suggest that if sufficient resources cannot be generated through fee receipts, construction funds may be requested in FY 1989 for the parking garage at Atlanta, GA, and in FY 1990 for the parking garage at Palm Beach, FL.

Question: 16.a.v. Will budget requests for the Atlanta, GA, and Palm Beach, FL, as well as other future parking garage construction projects during the next three fiscal years, assume that funding will be provided by new budget authority to the parking garage revolving fund instead of from parking fees collected and deposited in the revolving fund?

Answer: Future budgets will base new budget authority requests on more complete data regarding projected receipts from fees. Any shortfall between fees projected and obligations projected will require new budget authority. Since fees have yet to be implemented, we cannot project how much budget authority will be necessary to fund these projects.

Question: 16.b. Please provide a detailed analysis of the FY 1987 and FY 1988 obligations and outlays, indicating each project for which these would be allocated.

Answer: The following chart lists the estimated parking garage revolving fund obligations and outlays for FY 1987 and FY 1988 ($ in thousands):

	Obligations		Outlays	
Location	FY 87	FY 88	FY 87	FY 88
Baltimore, MD	$ 7,500	$ 190	$118	$ 3,600
Durham, NC		8,675		300
Huntington, WV		3,840	0	0
San Francisco, CA	3,600*	106	0	800
Syracuse, NY	6,700	137	0	1,200
Leases – Various Stations	575	594	575	594
Total	$18,375	$13,542	$693	$6,494

*Obligations will range between $3,000 thousand and $4,475 thousand depending on two or four levels of parking.

Question: 17. Does the VA plan to build any new nursing homes or domiciliaries in the next five fiscal years? If so, please indicate the VA's priorities for these projects, proposed location, and size of such facilities.

Answer: The VA's long term care policy emphasizes the provision of new nursing home beds through an expanded state veterans program, community nursing home programs, and the conversion of existing VA-owned hospital beds to nursing home beds. In this way, VA-provided quality nursing home care can continue to be expanded at significantly lower cost. Annually, the VA reviews nursing home bed needs to see whether these resources will satisfy veterans demand. Where state home programs don't exist and community beds are insufficient to meet veterans needs, VA may propose new VA-owned nursing home beds. VA will be renovating and converting over two hundred hospital beds to nursing home beds in 1988 in part through the minor construction budget. An additional 190 conversion beds are being provided in the major construction account through the replacement and modernization project at North Chicago. The VA will continue to assess its requirement for nursing home care beds and the various methods of meeting this need.

Question: 18. a. What is the status of the VA's effort to develop capital facility development plans for each VA medical center?

b. How much money will be used to develop these plans?

c. Will this activity be conducted in-house by contract?

Answer: There were 131 VAMC's selected for Capital Facilities Studies. The work is substantially complete, and we are in the data analysis phase. These studies cost approximately $9.4 million. The studies were accomplished by 18 Architect/Engineer firms and are being reviewed by VA Central Office and VAMC Engineering staffs.

In addition, the VA has begun developing a Facility Development Plan (FDP) for each VA medical center. Four VA medical centers have been selected to serve as pilot test sites for the FDP process that has been developed. These locations are Marion, IL; Marion, IN; Long Beach, CA; and Northport, NY. The pilot test began in January 1987, and will serve to guide the VA in the wider application of the FDP concept to all medical centers.

Current plans envision beginning FDP development at 40 VA medical centers in the 4th Quarter of FY 1987 and funds were provided in the 1987 appropriation for this purpose. The FY 1988 budget contains an additional $10 million to begin 40 more FDP's. In total, it is anticipated that $30 to $40 million will be required to complete the development of all Facility Development Plans. This estimate will be more clearly refined once the Agency has completed the pilot development activities and has gained experience in contracting for the first 40 plans. The FDP effort for most VA medical centers will be a joint undertaking of VA personnel and the support services of a contractor with expertise in health care facility planning and A/E services. For those medical centers which are largely of recent construction, it is anticipated that contractor support will not be required.

Question: 19. a. How much will the VA spend on DHCP hardware and software acquisition and development during the next three fiscal years?

Answer: The VA planned expenditures for acquisition of DHCP hardware and software for FY 87, FY 88, FY 89 are detailed below. The following Enhanced DHCP applications will be implemented with this additional hardware and operating system software: (a) FY 87 - Radiology, Dietetics, Medical Records Tracking and Integrated Funds Control and Procurement (IFCAP), (b) FY 88 - Decentralized Medical Management System (DMMS) and Surgery, (c) FY 89 - Nursing and Mental Health.

	FY 87	FY 88	FY 89
Hardware	$35,018,000	$20,177,000	$28,420,000
Operating System	$ 70,000	$ 496,000	$ 559,000

DM&S does not yet have a staff accounting system to estimate application development costs. A work tracking system is planned to be implemented by the ISCs by the end of the year which will enable the Department to measure time spent in writing software versus providing field support versus other activities. DM&S will produce estimates based on the tracking system as soon as possible after it's operating.

Question: 19. b. How many medical centers will receive new hardware? Please list each medical center.

Answer: Purchase of 31 new systems (see attached list) with FY 87 funds will provide the capacity to implement CORE and the first four priority Enhanced DHCP applications (Radiology, Dietetics, Medical Records Tracking and Integrated Funds Control and Procurement (IFCAP)). The equipment freed up at these 31 sites will be redistributed to provide all other sites with the capacity to implement the first four priority Enhanced DHCP applications.

DHCP REPLACEMENT SYSTEMS SITE LIST

VA Medical Center
1201 NW 16th Street
Miami, FL 33125

VA Medical Center
5901 East Seventh St.
Long Beach, CA 90822

VA Medical Center
4500 South Lancaster Rd.
Dallas, TX 75216

VA Medical Center
5th Ave. & Roosevelt Rd.
Hines, IL 60141

VA Medical Center
54th St & 48th Ave South
Minneapolis, MN 55417

VA Medical Center
10010 1st Ave & E 24th St
New York, NY 10010

VA Medical Center
50 Irving St. NW
Washington DC 20422

VA Medical Center
Wilshire & Swatelle Blvds
W. Los Angeles, CA 90073

VA Medical Center
2002 Holcombe Blvd.
Houston, TX 77211

VA Medical Center
800 Poly Place
Brooklyn, NY 11209

VA Medical Center
10000 Brecksville Rd.
Brecksville, OH 44141

VA Medical Center
150 South Huntington Ave.
Boston, MA 02130

VA Medical Center
1300 North 30th St.
Tampa, FL 33612

VA Medical Center
3801 Miranda Ave.
Palo Alto, CA 94304

VA Medical Center
University Drive C
Pittsburgh, PA 15240

VA Medical Center
Ft. Roots Dr.
N. Little Rock, AR 72214

VA Medical Center
GPO Box 4867
San Juan, PR 00936

VA Medical Center
Jefferson Barracks Div.
St. Louis, MO 63125

VA Medical Center
3710 SW US Vet. Hosp. Rd.
Portland, OR 97207

VA Medical Center
Bay Pines Blvd (Box 5000)
Bay Pines, FL 33504

VA Medical Center
1601 Perdido St.
New Orleans, LA 70146

VA Medical Center
3495 Bailey Ave.
Buffalo, NY 14215

VA Medical Center
7400 Merton Minter Blvd.
San Antonio, TX 78284

VA Medical Center
1201 Broad Rock Rd.
Richmond, VA 23249

VA Medical Center
820 South Damen Ave.
Chicago, IL 60680

VA Medical Center
Tremont Ave.
East Orange, NJ 07019

VA Medical Center
3350 La Jolla Village Dr.
San Diego, CA 92161

VA Medical Center
940 Belmont Street
Brockton, MA 02401

VA Medical Center
1670 Clairmont Rd.
Decatur, GA 30033

VA Medical Center
Northport, NY 11768

VA Medical Center
Archer Rd.
Gainesville, FL 32602

Question: 20. Has consideration been given to retaining the MUMPS language and purchasing hardware which has more capacity than the DEC hardware?

Answer: Major intents of the FY 87 procurement are to obtain systems which support the ANSI MUMPS language, to procure a MUMPS operating system which supports a multilingual environment, and to purchase hardware which will allow the computing capacity to be increased incrementally to support Enhanced DHCP applications. The Agency expects several contractors, including DEC, to bid on providing this support.

Question: 21. a. What is the average length of employment for MUMPS programmers?

Answer: Currently, the average length of employment of MUMPS programmers in the VA Information Systems Centers is 1.8 years.

Question: 21. b. What percentage must be trained to use MUMPS language in-house?

Answer: 66% of newly hired MUMPS programmers receive in-house training at VA Information Systems Centers. This is comparable to the need for training COBOL programmers in support of ongoing maintenance of our large DPC-based applications.

Question: 21. c. Is the VA competitive with the private sector as an employer of programmers?

Answer: As concerns MUMPS programmers, Agency experience is that in some cases the VA is competitive with the private sector as an employer of programmers and in other cases it is not. Exit interviews with employees indicate that some of our experienced MUMPS programmers are being hired by the private sector for as much as a 30% to 50% increase in salary, primarily for work on contracts with the Department of Defense.

PART B

QUESTION 1a: The VA continues to project annual property acquisitions in excess of 23,000 per year.

To what extent do you believe this acquisition rate to be the result of economic conditions rather than conditions built into the structure of the loan guaranty program?

Please discuss any assumptions relating to your analysis.

RESPONSE 1a: The VA is still acquiring properties at a rate above what was experienced in the 1970's. VA loans do experience a higher foreclosure rate than conventional loans due to VA's no downpayment provision and more liberal underwriting standards. However, most real estate lenders have experienced higher foreclosures during the 1980's due to lower appreciation in home values, changes in bankruptcy laws, and severe economic problems concentrated in certain geographic areas. Currently the severe downturn in the energy industry has caused a very high level of GI loan foreclosures. For the first three months of FY 1987, foreclosures in Texas, Colorado, and Oklahoma have accounted for nearly one-third of all property acquisitions. Most mortgage banking economists, while projecting some improvement, are not projecting a return to the low foreclosure rates of the 1970's.

QUESTION 1b: We are now in the fifth year of an economic recovery. What economic conditions would be necessary to reduce property acquisitions to the level that prevailed prior to the 1980's (approximately 10,000 per year)?

RESPONSE 1b: The low foreclosure rates experienced in the 1970's were primarily due to the high rate of inflation experienced. Because housing property appreciated greatly due to inflation, homeowners in danger of foreclosure were able to sell their homes at a profit (or at least without a loss). In addition, lower interest rates facilitated a strong demand for housing. Currently, because some markets have suffered a decline in real estate values, delinquent homeowners are unable to resell their properties at a price sufficient to retire their outstanding debt. In addition, because of the devaluation of property values, homeowners who are behind in their mortgage payments are often able to find comparable properties available for much lower monthly rental payments than their current mortgage payments. This acts as an incentive for these people to walk away from their current loan (and debt). This is particularly true in Houston. The VA, as well as most economists, does not project a return of high inflation, and thus we do not project a substantial improvement in foreclosure rates. However, the substantial decline in interest rates has made housing more affordable and due to the substantial number of refinancings, some reductions in foreclosure rates are projected.

QUESTION 1c(i): What would be the effect of an economic recession on property acquisitions and the need for outside funding to supplement the loan guaranty revolving fund?

RESPONSE 1c(i): It is difficult to speculate on just what effect an economic recession would have on property acquisitions. The severity of such a recession in certain geographic areas would determine how many properties VA would eventually acquire. An economic downturn in Florida or California would certainly impact on the number of property acquisitions. In contrast, an economic recession concentrated in New York and New England would have much less impact because VA's exposure in these states is significantly lower.

QUESTION 1c(ii): If a recession would lead to a requirement for increased funds, would the VA request an additional increase in the funding fee?

RESPONSE 1c(ii): In general a recession would increase outlays to the revolving fund. However, at this time we believe that the proposed 2.5 percent level would suffice.

QUESTION 2a: Please indicate the estimated transportation costs, including any special transportation allowance, to be paid for vocational rehabilitation trainees for fiscal years 1987 and 1988 from the readjustment benefits appropriation account.

RESPONSE 2a: It is estimated that $750,000 will be spent for beneficiary travel in 1987 and $700,000 will be spent in 1988.

QUESTION 2b: Please also indicate the number of trainees for whom beneficiary travel will be paid and the average amount of benefit per veteran trainee.

RESPONSE 2b: The expenditures for beneficiary travel cannot be associated with the number of trainees. Most beneficiary travel is paid for initial evaluations. Some individuals who receive these counseling evaluations are deemed not entitled for vocational rehabilitation and never enter training. Further, not all individuals who receive counseling receive beneficiary travel payments. Disabled veterans who live in the area of a Regional Office do not receive these payments. The estimates for 1987 and 1988 were based on recent experience when this activity was funded from the General Operating Expenses appropriation.

QUESTION 2c: Are additional funds being requested for these costs or are the costs to be absorbed by the readjustment benefits appropriation?

RESPONSE 2c: Although not shown as a separate item in the Readjustment benefits account, beneficiary travel costs are included in our 1987 and 1988 budget requests. Beneficiary travel costs are now included within the cost estimates of the Vocational Rehabilitation program.

Question: **3a. Since Health Services Research is no longer programmatically under the ACMD for research, how has that affected research planning, budgeting, and coordination of the Veterans' Administration's research efforts?**

nswer: **Health Services/Systems Research and Development plans and budgets are coordinated through the Office of the ACMD for Planning, Evaluation and Systems Development with the Office of the ACMD for Research and Development. The ACMD for R&D retains responsibility for managing the R&D budget. All R&D activities continue to be administered at the local facility level by the Associate Chief of Staff for Research and Develoment under the direction of the Medical Center Director.**

Question: 3b. i. Does the R&D research program continue to be under the supervision of the ACMD for research?

Answer: The Medical Research Service continues to be under the direct supervision of the ACMD for Research and Development; Health Systems Research and Development (HSR&D) is under the ACMD for Planning, Evaluation and Systems Development, and Rehabilitation Research and Development (RR&D) is under the ACMD for Clinical Affairs. The budgetary and fiscal activities of HSR&D and RR&D are coordinated through the ACMD for Research and Development.

Question 3b. ii. If not, why not, and how does that change the VA's coordinated efforts and budgeting in rehabilitation and medical research?

Answer: There was a management decision to reassign HSR&D and RR&D from the ACMD for Research and Development in order that the programs meet their assigned missions and goals of improved operations sought by the reorganization.

As stated in the Memorandum of Understanding the ACMD for Research and Development is responsible for:

- Submitting annual budgets and implementing subsequent adjustments for each service.
- Developing a fiscal plan and maintaining operation for all Services.
- Coordinating planning and budgeting operations with the other ACMDs.

Question: 4. What is the status of planning for psychiatric treatment of veterans in Puerto Rico?

Answer: The Department of Medicine and Surgery allocated $1.2 million to implement a proposed demonstration project for alternate community-based and ambulatory treatment approaches for chronic mentally ill veterans in Puerto Rico. A two phased proposal has been accepted in principle and the available funds will allow implementation of Phase I which consists of three components:

- A family mental health day treatment center
- an aggressive outreach program, and
- a mental hygiene clinic expansion program.

Phase II will address the development of a day hospital and night hospital.

QUESTION 5: What is the Veterans' Administration's position on a program initiated in several states called MED-VET, in which private hospitals waive the Medicare co-payment for Medicare-eligible veterans who use their facilities?

RESPONSE: VA has been aware that a limited number of non-VA hospitals in Arizona have sought to attract new veteran patients through an effort marketed as "MED-VET." Such plans offer cost-free acute care to Medicare-eligible veterans. These hospitals apparently collect reimbursement from Medicare and waive their right to collect from patients deductibles and coinsurance normally payable to Medicare providers.

Although such plans have been characterized as offering veterans greater choice, many such programs are limited in scope. Some plans apparently discourage or reject veterans who will require long-term care for chronic conditions. If providers are free to screen prospective enrollees and provide care selectively, it will not create, as some have suggested, a real choice or alternative for all Medicare-eligible veterans. Rather, it would provide a mechanism and opportunity under which participating private sector hospitals would gain access to patients likely to need profitable acute care. Thus, the MED-VET concept may to provide its sponsors greater choice than it does veterans.

As part of the President's Catastrophic Illness proposal, which was just transmitted to Congress, out-of-pocket Medicare-covered expenditures would be capped at $2,000 per person in 1988, and the Medicare hospital deductible would be restructured. Under the restructuring, no Medicare-eligible person would pay for more than two hospital deductibles per year. We believe that this proposal will assist Medicare-eligible veterans who do not oose to use VA facilities, and urge the Congress to enact it.

..estion: 6. The VA plans to convert 282 hospital beds to nursing home care beds during FY 1988. Which facilities will be affected by this conversion?

Answer: Current plans call for a conversion of 282 hospital beds to nursing home care beds during FY 1988. The locations and number of beds are as follows:

VAMC	No. of Beds
Albany	23
Bonham	20
Brooklyn	73
Butler	45
Ft. Lyon	37
Miles City	34
Roseburg	15
West Haven	35
Total - FY 1988	282

Question 7: The budget documents discuss the establishment of a VA-DOD Task Force to examine the sharing of facilities. Such an examination was required by Public Law 99-576.

a. What is the status of the formulation of the aforementioned Task Force?

Answer: The VA and DOD agreed in November to establish a task force to coordinate activities. Sharing of facilities and reimbursement to VAMCs from the Civilian Health Program of the Uniformed Service (CHAMPUS) are key areas to be addressed. DOD has asked that the task force be activated only after a Request for Proposal (RFP) for the first phase of the CHAMPUS Reform Initiative appears in the Federal Register. RFP publication is expected shortly. In the interim, Department of Medicine and Surgery and Office of Facilities representatives will meet with DOD's Defense Medical Facilities Office representative on February 27, 1987 to discuss greater coordination of construction planning.

b. Did the VA consider VA-DOD sharing for the projects for which funding was requested in FY 1988?

Answer: The requirement of P.L. 99-576 that the VA pursue health care resource sharing with DOD has been incorporated into a proposed addition to the Department of Medicine and Surgery's "Management and Operational Activities" manual (Section 1.126, "Construction and Equipment") covering VA-DOD sharing. In addition, current plans are to set up an interagency task force to discuss a broad range of issues, related to sharing of health-care resources, including hospital construction. Before the task force begins its work, however, DOD has requested the initial work on its CHAMPUS reform initiative be completed. A RFP for Phase I of the CHAMPUS reform initiative is expected by late February. Critical to joint hospital planning consideration are the terms under which CHAMPUS or its successor program may reimburse VAMCs for services provided to beneficiaries. Due to the timeframe of the passage of the law, we were unable to reflect the requirements of the law in the FY 1988 budget submission.

WRITTEN FOLLOWUP QUESTIONS FROM SENATOR MURKOWSKI TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

LOAN GUARANTY PROGRAM

QUESTION 1: The amount of a VA guaranty (60% up to $27,500) substantially exceeds the security (down payment) lenders require for conventional loans (20% to 25%).

QUESTION 1a: What would be the effect on the Loan Guaranty Revolving Fund (LGRF) if the VA guaranty amount was comparable to the amount of down payment required in conventional loans?

RESPONSE 1a: Under current law veterans are entitled to a maximum home loan guaranty of $27,500, up to a maximum of 60 percent of the loan amount. Lenders making loans to veterans for $45,833 ($27,500 equals 60 percent of loan) or less receive maximum guaranty protection of 60 percent. The percentage of protection, or coverage, decreases as the loan amount rises. Qualified veterans can generally obtain a no money down loan up to $110,000 because lenders have the 25 percent coverage needed to sell these loans in the secondary market.

There is ample statistical evidence that foreclosures of GI loans occur more frequently at the lower loan amounts. Mortgage lenders are fully aware that the risk of foreclosure is greater on these loans. Therefore the additional coverage up to 60 percent provides a cushion, or extra protection, against losses from foreclosure. If the guaranty percentage maximum was established at 25 percent the incidence of "no bid" foreclosure cases would increase tremendously. For example, under current law the guaranty on a $45,000 home loan would be $27,000, 60 percent of the loan amount. In the event of default and foreclosure, the VA would acquire the property in almost all cases because it is unlikely that the unguaranteed portion of the debt would exceed the net value of the property. Assuming a total debt of $50,000 the net value would have to be less than $23,000 before VA would not acquire (not bid) the property.

However, if the same loan carried a 25 percent ($11,250) guaranty the probability of a "no bid" becomes much more likely. The unguaranteed portion of the debt would be $38,750 instead of $23,000. It is very possible for a property purchased at $45,000 to depreciate in value to less than $38,750 which would create a "no bid" situation.

The impact on the LGRF would be that VA would pay gross claims in many more foreclosure cases while acquiring proportionately fewer properties. The average amount of gross claims paid would decrease because VA's guaranty would be less in almost all foreclosure cases.

QUESTION 1b: What would be the effect on a homebuying veteran and how would the effect compare to the veteran's liability under current law, if the property is foreclosed?

RESPONSE 1b: The GI loan program has been most successful in assisting lower income veterans to purchase homes without down payments. The $27,500 guaranty (up to 60 percent of the loan amount) facilitates the extension of this credit by providing the lender protection against financial loss. A maximum guaranty of 25 percent would increase the lender's risk in making GI loans. We do not know whether or to what degree this would cause lenders to reduce participating in the GI loan program. A higher percentage of "no bid" cases would increase losses to lenders which in turn could make it more difficult for veterans to obtain home loan financing.

The veteran's liability to VA in foreclosure cases cannot exceed VA's guaranty. In cases where VA acquired the property there would be no change in the debt established against the veteran. In the higher number of "no bid" cases the debts would be limited to VA's gross claim payment. Since the claim would be limited to 25 percent of the loan amount, the average debt to VA would decrease accordingly.

QUESTION 2: The VA Inspector General has reported to the Committee that there appears to be a significant amount of fraud on the part of some who purchase property secured with VA guaranteed loans. One scheme involves equity skimming.

QUESTION 2a: What are the costs to the Loan Guaranty Revolving Fund (LGRF) as a result of equity skimming?

RESPONSE 2a: We have no data which isolates costs to the Fund resulting from equity skimming.

QUESTION 2b: What steps would you recommend to curb this type of abuse?

RESPONSE 2b: By requiring that people who assume VA loans meet certain credit criteria some reductions in skimming may occur. In addition, we recommend increased criminal penalties and vigorous prosecution of equity skimmers by the Department of Justice to curb this abuse. The VA presently warns veterans against equity skimming in a pamphlet sent at the time their loans are guaranteed. In addition, an extract from this pamphlet may be sent to veterans in default, along with VA's supplemental servicing letter. An additional warning notice which advises veterans of the importance of obtaining a release of liability from VA is being added to each Certificate of Eligibility issued. A further warning will be highlighted on the supplemental servicing letters sent to each veteran whose loan is reported in default.

QUESTION 2c: What proportion of defaulted loans involve assumed loans?

RESPONSE 2c: In FY 1986, 15 percent of all GI loan terminations involved transferee owners.

QUESTION 2d: What savings would result from a requirement that VA home loan assumptions be subject to prior credit checks and VA approval?

RESPONSE 2d: We are not sure what savings would result from such a requirement. However, it should be noted that a substantial number of equity skimming cases involve a transfer of title without assumption of the loan. Accordingly, there would be no opportunity for prior credit checks in such cases.

QUESTION 2e: Would legislation be necessary to implement a policy which would require that all VA home loans assumptions be subject to prior credit checks and VA approval?

RESPONSE 2e: Legislative change would be necessary to implement such a policy.

FAFT PARTICIPATION SALES CERTIFICATES

Question 1: The VA estimates that an appropriation of approximately $146 million is necessary in FY 1988 in order to redeem the final series of certificates of the Participation Sales Fund which mature and become payable by the VA on August 12, 1988. I am very concerned with the amount of this appropriation request and the reasons why an appropriation of this size is necessary to redeem the final series of the Federal Assets Financing Trust Participation Certificates.

QUESTION 1A: Please provide a full explanation why an appropriation of this magnitude is necessary to redeem the final series of certificates.

RESPONSE 1A: The Participation Sales Act of 1966 (Public Law 89-429) authorized the Federal National Mortgage Association (FNMA) (later known as the Government National Mortgage Association (GNMA)) to act as trustee and pool loans from six agencies and sell participation certificates. Principal and interest collections received by the loan guaranty revolving fund (LGRF) were transferred to GNMA for payment to the participation certificate holders. Funds not used to pay interest to the certificate holder or retire certificates were invested by GNMA and credited to the LGRF. The LGRF in turn recorded the accrued investment earnings as budgetary resources in the form of accounts receivables, which are used in the calculation of unobligated balances.

Prior to July 19, 1984, the VA was making transfers to GNMA to redeem these participation certificates. The payments were recorded in line 31.00 of the budget schedules and identified as redemption of participation certificates in the budget narrative. This transfer was treated in the same manner as an obligation. After July 19, 1984, VA was informed by a letter from GNMA (Attached HUD letter) to suspend payments until further notice. Once the VA was told to suspend periodic payments, this was no longer recorded in this manner. It should be noted that this was the basic method used to retire the $272 million in certificates that have been retired as well as to deposit $431 million of the $577.7 million in certificates that will mature in August 1988.

The accrued investment income, which has been recorded as an account receivable, was reflected as an offsetting collections in the Loan Guaranty Revolving Fund submission. These investment income receipts, as illustrated on the chart on page 2-9 of the budget submission, have been reflected as operating income and have been used in determining the unobligated balance for the period.

There are several important points that should be noted about this transaction. The total amount of certificates to be retired in August 1988 totals $577.7 million. The VA has deposited, through the periodic transfer of funds (and recorded as redemption of participation sales certificates), $431 million dollars of this amount. Although the interest earnings have continued to be transferred to the VA and have been included in the unobligated balance calculation, these funds have been utilized to operate the loan guaranty program. The utilization of these resources has in fact lowered the program's appropriation requirement in prior years. Finally, once GNMA transfers the cash and the certificate is retired the loans currently pledged to the trust will be made available for sale. It may be possible to sell these loans in early 1989. Since this transaction will occur late in the fiscal year it will not be possible to sell the loans in time to increase the 1988 end-of-year unobligated balance to a level that allows the LGRF to have sufficient flexibility for the operation of the program.

QUESTION 1B: Please indicate the total amount of funds which the VA received at the time the participation certificates in each series were issued and explain how these funds were maintained and expended.

RESPONSE 1B: VA's original shares in the participation certificate totalled $850 million as shown below:

Series	Original Shares (in millions)	Issue date
A	$175	December 11, 1967
B	$250	January 30, 1968
C	$165	April 8, 1968
D	$260	August 12, 1968
Total	$850	

The receipts were deposited into the revolving fund and were used to finance program expenditures.

QUESTION 1C: Please describe the procedures implemented by the VA to account for the funds related to the participation sales certificates, with special emphasis on the accounting for the lump sum the VA initially received when the certificates were issued, and accounting procedures utilized to monitor the funds necessary to redeem the debt when the certificates matured.

RESPONSE 1C: Accounting Procedures:

LUMP SUM - All funds received from participating in the mortgage pools were used as a means of financing program operations and were credited to the revolving fund as a receipt.

PRINCIPAL PAYMENTS - The original VA share of the FAFT Participation Certificates issued by the Government National Mortgage Association (GNMA) was $850 million. VA has pledged a portion of our loans receivable to guarantee the trust debt. All principal collections from these pledged loans were being transferred on a monthly basis to GNMA up until the end of fiscal year 1985. During FY 1985, GNMA made an assessment of VA's remaining liability compared with the deposits on hand and projected earnings throughout the end of the trust. GNMA directed VA to cease making principal collection transfers after FY 1985 based on this analysis. (See GNMA letter dated April 26, 1985). GNMA in turn used VA principal to pay the participation certificate holders. During the 1970's, certificates totalling $272.3 million matured and were retired by GNMA, thereby leaving the current VA share of the outstanding PC's at $577.7 million. VA has presently accumulated on deposit with GNMA $431.6 million in transferred principal collections. Therefore, the VA has remaining a final transfer of $146.1 million before August, 1988 when the debt matures.

INTEREST PAYMENTS - VA had also transferred interest collections from these pledged loans receivable to GNMA up until the end of FY 1984. GNMA in turn paid interest periodically to PC holders from the VA transferred interest collections. During FY 1984, GNMA made an assessment of VA's remaining liability compared with the deposits on hand and projected earnings through the end of the trust. GNMA directed VA to cease making interest collection transfers after FY 1984 based on the analysis. (See GNMA letter dated July 19, 1984).

INVESTMENT EARNINGS - The remaining principal and interest deposits on hand were invested by GNMA and VA was credited with the earnings on a monthly basis. Even though GNMA never physically paid these interest earnings, we at VA did recognize the income each month and take it into our unobligated balance available for current operations. As of the end of FY 1986, VA had a balance of $135.1 million in our earnings account with GNMA. It is estimated that this balance may grow to $159 by August, 1988 when the trust is terminated. Since we will have recognized all $159 million in our unobligated balance by that time, the payment VA receives from GNMA will be used to offset the account receivable which has built up on VA books over the years.

PLEDGED LOANS - At the end of FY 1986, the balance in the VA loans receivables pledged to FAFT is $154.9 million. After considering principal collections, the projected balance in these loans receivable would be $101 million as of August, 1988. Once the trust debt is satisfied, those loans could be sold. Since these pledged loans are at low interest rates and close to their own maturity, a detailed analysis would be required on the wisdom of including them in a loan sale.

PROBLEM STATEMENT:

The VA misunderstood the HUD letters that stated: "The VA has a surplus of interest on deposit with GNMA of approximately $101 million. An additional $58 million in surplus interest is projected for VA over the next three years. Together these surpluses total $159 million. If applied to the remaining liability of $147 million, a net surplus of $12 million would exist."

This portion of the letter was misinterpreted. It was interpreted that no additional payments would be required to retire the certificate. However, the VA had been recording the interest and receivable as an account receivable and this asset was included in determining the unobligated balance. Once included in the unobligated balance, these assets were projected to be used for day to day program operations. It should be noted that these assets were used for everyday loan guaranty activity. The net result was that these assets alleviated the need for congressional appropriations until 1988 when the debt matures.

ACCOUNTING POLICY:

The VA policy governing accounting for transactions with the Federal Assets Financing Trust (FAFT) are contained in Controller Policy Manual MP-4, Part V, Appendix L. Note: Principal transfers were accomplished on Standard Form 1151 as appropriation transfers. As such they transferred unobligated appropriation from VA to GNMA. Interest transfers were accomplished on Standard Form 1081 as a payment from VA obligated appropriation.

QUESTION 1D(i): How were the three prior series of certificates handled when they matured?

RESPONSE 1D(i): There were four series of FAFT participation certificates (A,B,C and D). Each series were comprised of two certificates maturing at different times. The maturity dates of the redeemed series of certificates are as follows:

Series	Principal paid (in millions)	Maturity Date
A	$ 58.3	February 1970
B	$ 30.9	February 1971
C	$ 5.5	April 1971
D	$177.6	August 1978
Total	$272.3	

As mentioned in question 1A, principal and interest collections received by the LGRF were transferred to GNMA for payment to the participation certificate holders. As each of these certificates matured the VA had sufficient principal on deposit to redeem the certificates. It should be noted that the remaining certificates, valued at $577.7 million, are scheduled to mature in August 1988. The VA has deposited $431 million in principal for these certificates. However, once GNMA requested the VA not to transfer any additional funds the receipts continued to be included as a collection while the additional payments were not paid. This has resulted in the need for an appropriation in 1988.

QUESTION 1D(ii): Were appropriations necessary to redeem certificates of the prior series and, if so, please indicate the amount of appropriations necessary to satisfy the debt?

RESPONSE 1D(ii): Since the VA was periodically depositing principal and interest collections from the pledged loans to GNMA, no appropriation was required to redeem the previous certificates.

QUESTION 1D(iii): Were funds set aside over the life of each series of the certificates in order to pay off the certificates when they became due?

RESPONSE 1D(iii): The principal and interest collections from pledged loans set aside to back the certificates were transferred to GNMA to be used for the redemption of the debt.

QUESTION 1D(iv): Were the D series certificates handled differently from the prior three series of certificates and, if so, please explain why?

RESPONSE 1D(iv): No differentiation was made between the four series of certificates. Initally there were two certificates each of series A,B,C & D, of which one certificate of each series had an earlier maturity date (February 1970, February and April 1971 and August 1978). The four remaining series A,B,C & D certificates are scheduled to mature in December 1987, February, April and August 1988, respectively.

QUESTION 1E: I understand that the "Summary of Financing of PSI's" on page 2-8 of the Benefits Programs budget book has been revised and/or updated. Please provide me with a copy of the revised chart.

RESPONSE 1E: The Summary of Financing of PSI's has not been revised or updated. This chart shows the amount of interest expense paid to participation certificate holders and the amount of money earned from investments by GNMA during the year. It is not associated with the appropriation needed to redeem the participation certificate, but to show insufficiencies of interest payable to participation certificate holders.

QUESTION 1F: Please explain how the amount of the "Insufficiencies Paid Participation Sales Fund" as reflected in the "Statement of Accountability" on page 2-12 of the Benefits Programs book was computed.

RESPONSE 1F: In the late 1960's and early 1970's funds were appropriated for the "Payment of Participation Sales Insufficiencies". The insufficiencies are primarily comprised of the excess of interest payments to holders of participation certificates over the interest payments received from the pooled mortgages or other obligations. It appears that the number in the budget of $173.9 million is not correct. Through September 30, 1986, the payments to trustees for insufficiencies totaled $27.9 million. However, this does not alter the primary problem that there will not be adequate resources to redeem the certificates scheduled to mature in August 1988. The assets are included in the unobligated balance and have been used to support every day activities in the loan guaranty fund. This chart will be updated and corrected in the next budget submission.

U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

THE GOVERNMENT NATIONAL
MORTGAGE ASSOCIATION

APR 26 1985

Mr. Donald M. Twitty
Director of Budget Staff (201 E)
Department of Veterans Benefits
Veterans Administration, Room 315A
810 Vermont Avenue, NW
Washington, DC 20420

Dear Mr. Twitty:

The Veterans Administration (VA), as a trustor of the Federal Assets Financing Trust (FAFT), has principal and interest on deposit with the Government National Mortgage Association (GNMA). These funds are to be used to retire VA's share of the FAFT liability both to public and government investors in fiscal year 1988. An analysis of the liability and principal deposit accounts through April 1985 shows that a shortage of approximately $159 million exists. This shortage will be reduced by an additional $12 million in principal collections through the end of fiscal 1985. This leaves a shortage of $147 million. The VA has a surplus of interest on deposit with GNMA of approximately $101 million. An additional $58 million in surplus interest is projected for VA over the next three years. Together these surpluses total $159 million. If applied to the remaining liability of $147 million, a net surplus of $12 million would exist.

Because of this projected surplus, GNMA is requesting that no further principal payments be remitted to the Trust after the September 1985 collections are remitted in October 1985. Although remote, should a shortage develop within your account, GNMA would then request that you resume sending principal and/or interest to meet your obligation.

Mr. Paul Imbraguglio is our accountant who handles the accounting and budget for the Trust. Either one of us may be reached on 755-8200 to answer any questions that may arise on this subject.

Yours truly,

(Signed) Albert J. Fulner, Jr.

Albert J. Fulner, Jr.
Controller

Enclosure

cc: Wes Smith ✓
Joyce Davis

	(000)	
Principal Liability of Trustor		$577,684
Principal Deposits with Trustee (Includes March 1985 collections received in April 1985)	$418,668	
Projected Principal Collections (Includes September 1985 received in October 1985)	12,000	
Surplus Interest Deposits with Trustee (Thru March 31, 1985)	101,426 1/	
Projected Surplus Interest (Income over expenses for April 1985 thru July 1988)	58,000 1/	
Projected Total Deposits with Trustee	$590,094	590,094
Net Surplus After Paying Liability		12,410 2/

1/ GNMA, as Trustee will return all surplus interest to VA. The projected amount is $159,426,000.00. This will be an outlay for GNMA and a receipt for VA. Because of the shortage of principal deposits, VA will have to return $147,016,000.00 in principal to GNMA.

2/ The estimated surplus balance that VA will receive after all obligations have been satisfied.

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

OVERNMENT NATIONAL
AGE ASSOCIATION

JUL 19 1984

Mr. Donald M. Twitty
Director of Budget Staff (201 E)
Department of Veterans Benefits
Veterans Administration, Room 315A
810 Vermont Avenue, NW
Washington, DC 20420

Dear Mr. Twitty:

The Veterans Administration (VA), as a trustor of the Federal Assets Financing Trust (FAFT), has principal and interest on deposit with the Government National Mortgage Association (GNMA). These funds are to be used to retire VA's share of the FAFT liability both to public and government investors in fiscal year 1988. An analysis of the liability and principal deposit account at June 30, 1984 shows that a shortage of approximately $180 million exists. This shortage will be reduced in the next four years by projected principal remittances of approximately $99 million. The $81 million difference may be reduced by additional principal being remitted to the Trust or by capitalizing surplus interest funds (see June 12, 1980 letter enclosed) in fiscal year 1988. There is $79 million on hand in surplus interest as of June 30, 1984. This surplus will grow each month by approximately $1.2 million in net earnings on investments held by the Trust. An outlay will be created by the transfer of surplus interest back to the VA in 1988 and in order to hold down this outlay, GNMA is requesting that no more interest be remitted to the Trust as of October 1, 1984. Although remote, should a shortage develop within your account, GNMA would then request that you resume sending interest to meet your obligation.

Mr. Paul Imbraguglio is the accountant who handles the accounting and budget for the Trust. Either one of us may be reached on 755-8200 to answer any questions that may arise on this subject.

Sincerely,

(Signed) Albert J. Fulner, Jr.

Albert J. Fulner, Jr.
Controller

Enclosure

cc: Wes Smith ✓
Joyce Davis

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION
WASHINGTON, D.C. 20410

June 12, 1980

IN REPLY REFER TO:

Ms. Dorothy L. Starbuck
Chief Benefits Director
Veterans Administration
Washington, D. C. 20420

Re: Government Mortgage Liquidation
Trust Transfer of Surplus Funds

Dear Ms. Starbuck:

This is in response to VA's request that GNMA return surplus funds in the Government Mortgage Liquidation Trust to them and that this surplus be capitalized and transferred to GNMA as principal.

We have reviewed your letter dated May 20, 1980, which shows VA's estimate of principal and interest transfers to GNMA on pooled loans. The schedule provides for the capitalization of $25 million of interest surplus in GMLT for FY 1980, another $8 million of interest surplus in GMLT for FY 1981 and principal payments to GNMA from VA for $62 million from the Loan Guaranty Revolving Fund in FY 1981. Amounts remaining in the principal and interest deposit accounts after the liability to the GMLT Trust has been met will be returned to VA. The projected amount of $77 million being returned to VA appears to be overstated by the $8 million being capitalized in 1981. This amount will also be affected by the earnings in GMLT.

Kindly implement this plan immediately by preparing the SF 1151, Non-Expenditure Transfer in the amount of $25 million to transfer principal to the trust and prepare a SF 1017-G Journal Voucher as a negative interest transfer in order to transfer interest (the surplus) to VA. Both dates should be the same on these two forms.

Upon receipt of VA's SF 1017-G, GNMA will prepare a disbursement voucher in order to record the transfer of interest out of the VA account. When VA's SF 1151 is received, we will record the principal.

Notwithstanding any of the above, GNMA reserves the right as trustee to require the VA to make additional contributions to the GMLT of principal and/or interest to assure the timely payment of the participation certificates.

Sincerely,

Albert J. Fulner Jr.

Albert J. Fulner, Jr.
Controller, GNMA

CREDIT REFORM INITIATIVE

QUESTION 1A: Part of the Administration's credit reform initiative includes the policy of reflecting the true economic cost of credit for guaranteed loans by measuring the "subsidy" costs as the cost of premiums charged to reinsure federally guaranteed loans with private sector insurance companies.

During the Senate Budget Committee's March 4, 1987 hearing on credit reform, concern was expressed by several Committee members over the issue of reinsuring loan guarantees. Mr. Joseph Wright of the Office of Management and Budget stated in part, that "deficit savings achieved by loan asset sales are...offset by... outlays for the purchase of reinsurance of guaranteed loans." Thus, the use of guaranteed loan reinsurance would appear to be primarily a means for more accurately measuring the value or subsidy costs of loan guaranty programs, rather than reducing the deficit. Mr. Wright also stated that not all loan guarantees would be reinsured. With respect to the Administration's proposed credit reform initiative as it specifically relates to the VA's home loan guaranty program:

Please provide a cost/benefit analysis of the guaranteed loan reinsurance provision as it relates to the Home Loan Guaranty Program for fiscal years 1988 through 1992, including the percentage and dollar amounts of VA home loan guaranty commitments which would be reinsured under the Administration's proposal, if implemented, and the total costs to the VA associated with this proposal.

RESPONSE 1A: In responding to this question, it is necessary to first understand the purpose of the credit reform proposal. The purpose of credit reform is to reflect the subsidy or benefit derived by the public by having government quaranteed loans in the current fiscal year. It is important to define two terms. The "level of subsidy" primarily reflects the cost to reinsure the loans in the private sector. The benefit is based upon the improved terms on borrowing from the government, whether it be lower interest rates, no down payment, versus acquiring a similar loan in the private sector. Second, this subsidy level is calculated based upon the level of loans guaranteed, both new home loans as well as direct vendee loans made on properties acquired through default, in the budgeted fiscal year.

The credit reform proposal, if enacted, would in effect split the current loan guaranty revolving fund into two separate programs. Under the proposal the loan guaranty program, would require a 1988 appropriation of $408,250,000, and reflect the program impact of loans guaranteed prior to October 1, 1987. The property acquisition costs, claims paid, as well as revenue generated by the sale of properties which were guaranteed prior to October 1, 1987 would continue to be funded and included in this account's appropriation request.

The subsidy appropriation, which totals $1,756,629,000, reflects the estimated cost to reinsure these loans in the private sector. Since only a small portion of the guaranteed loans will be reinsured in 1988, these funds would primarily be used to support the future program costs associated with the loans that will be guaranteed in 1988.

As mentioned earlier, the credit reform proposal, beginning in 1988, would request a subsidy appropriation based upon the anticipated dollar value of loans guaranteed for the fiscal year. For example it is estimated that the VA will guaranty loans totaling $26.7 billion in 1988. It is estimated that the subsidy or benefit derived from having the VA guarantee a loan will be 6.4 percent in 1988. Therefore the subsidy appropriation, based upon this level of guaranteed loans as well as the level of new direct loans made in 1988, will total nearly $1.8 billion. As the loans are closed, the VA will transfer the subsidy for that loan to the Treasury.

Beginning in 1988, Treasury will begin reinsuring loans made in the fiscal year. In 1988 it is anticipated that $1.4 billion in loans will be reinsured by the private sector. It is anticipated that the premiums for this insurance will be $100 million. The chart below reflects the estimated level of loans to be reinsured through 1992. The cost for this reinsurance would be funded by the subsidy appropriation to the loan guaranty program.

FY	Amount of Guaranteed Loans Closed (000)	Amount of Reinsured Loans (000)	Percent
1988	$26,701,774	$ 1,370,000	5.2
1989	$25,131,087	$ 4,110,000	16.4
1990	$22,508,400	$10,353,864	46.0
1991	$19,093,676	$13,556,509	71.0
1992	$17,174,785	$17,174,785	100.0

Although the VA's appropriation would increase from 1988 through 1992, it is necessary to remember two points. First, the increase in the appropriation reflects a change in the budgeting philosophy for the loan guaranty program. The existing legislation request of $389.8 million included in the January 1987 budget submission reflects the 1988 cost to operate the loan guaranty revolving fund. In large part these obligations are associated with the loans guaranteed in prior fiscal years with foreclosure occuring in 1988. The receipts come from selling either the properties or the resulting vendee loans in the private sector along with a funding fee charged to new guarantees closed during 1988. Under credit reform, an appropriation is still required for the existing loan guaranty program. In addition, a subsidy appropriation is required to reflect the subsidy of guaranteeing new loans in 1988. Due to the different purposes of the two budget requests, it is not fair to compare them on an appropriation level.

Second, the federal deficit is based upon government outlays. In this respect, enactment of credit reform will not significantly impact government outlays in 1988. On the whole the loan guaranty program will not be operated any differently in 1988. The veteran's eligibility remains unchanged. The way properties are acquired and sold as well as selling loans also will not change. The only increase in government outlays will be the cost to reinsure these loans. It is estimated that reinsurance premiums will cost $100 million in 1988 and $300 million in 1989. The cost of these premiums, however, should be offset through lower obligations in future years.

QUESTION 1B: Would these costs be absorbed by the Loan Guaranty Revolving Fund?

RESPONSE 1B: No. As mentioned in the previous response (1A), the only additional outlay in the entire loan guaranty program in 1988 would be for the purchase of $1,370,000,000 in insurance on a portion of the loans guaranteed after September 30, 1987. It is estimated that the cost of this insurance will be $100 million. In 1989, it is estimated that the reinsurance will cost $300 million. The Treasury will fund the loan reinsurance cost from the resources the VA was provided in the subsidy appropriation and subsequently transferred to Treasury.

While the current loan guaranty program will be divided between the program consisting of loans made before October 1, 1987, which would continue to be funded through appropriations and activities related to the guaranty of properties made before October 1, 1987, and the subsidy appropriation for loans guaranteed after September 30, 1987, there will not be any other change in the operation of the loan guaranty program. All receipts and obligations that occur now will still take place. However, these activities will be recorded in one of the two loan guaranty programs (as appropriate). It is important to note that the only change in program costs and outlays will be in the reinsuring of certain guaranteed loans. The insured loans would result in lower outlays in the future since any administrative costs and foreclosure activity would then be assumed by the private sector (i.e. insurer).

QUESTION 1C: Would any VA home loan guarantees be reinsured during FY 1987, and, if so, please indicate the percentage, dollar amounts of loan guarantee commitment which would be reinsured, estimated costs, and the criteria which would be used to implement this proposal.

RESPONSE 1C: Loans guaranteed during 1987 will not be affected by this proposal.

QUESTION 1D: Would private insurers assume full liability for the guaranteed loans which are reinsured?

RESPONSE 1D: Yes. The objective of reinsurance of loans is to eventually eliminate all contingent liability of the Federal Government.

QUESTION 1E: If the Administration's proposal for loan asset sales was not implemented, what impact would the cost of reinsurance have on the Loan Guaranty Revolving Fund?

RESPONSE 1E: The 1988 President's budget submission includes two initiatives on the sale of loans. One initiative would have the VA liquidate most of the current loan portfolio valued at $1.1 billion. This would be accomplished by selling $300 million of the loan portfolio in each of the next three fiscal years. It is estimated that the sale of the loan portfolio would result in revenues of $210 million in each of the next three years.

The second initiative deals with selling loans without recourse. This proposal is consistent with the other proposals and the basic philosophy of the credit reform proposal. The purpose of credit reform is to show the actual benefit of guaranteeing loans in a fiscal year as well as to use the private sector as much as possible in the eventual management of the program once the loan has been made.

The rejection of either proposal would not have any impact on the reinsurance of new guaranteed loans under the credit reform proposal. The subsidy appropriation request primarily reflects the cost to the government to reinsure the loans in the private sector. The primary purpose of the credit reform proposals is to a) reflect the true benefit of providing government guaranteed loans and b) to transfer as much of the contingent liability to the private sector (whether it be as loan sales or insuring guaranteed home loans) as quickly as possible. Therefore, as the subsidy appropriation is made, Treasury will use a portion of these funds to insure a portion of the loan guarantees made in 1988. For example, it is estimated that the Treasury will pay premiums of $100 million in 1988 to reinsure VA home loan guarantees totaling $1,370,000,000.

The receipts from selling the loan portfolio would be shown in the existing loan guaranty program. Therefore, if the VA is not able to sell these loans there would be a need for an increase in the appropriation request. While the receipts from the sale of loans, made after September 30, 1987, without recourse will be deposited in the Treasury's subsidy fund account, these receipts will not have any impact on either the subsidy appropriation request or the reinsurance of loans guaranteed after September 30, 1987.

DVB'S WANG ADP

QUESTION 1A: How much money has DVB invested in the WANG office automation systems?

RESPONSE 1A: DVB has invested approximately $10.8 million in Wang software/hardware. An additional $2.4 million was expended for installation, training, maintenance, and other support requirements.

QUESTION 1B: What future expenditures are planned?

RESPONSE 1B: The Office of ADP Systems Management is currently reviewing the existing Wang system configurations to identify any additional hardware and/or software requirements. In each budget year, the Department has included funding to support the ongoing costs of maintenance of the office automation systems and to support minor enhancements to the current equipment and software base particularly for the regional offices.

QUESTION 2: Does DVB have plans to enter title 38, regulations, manuals, circulars, information bulletins, teletypes, and advisory opinions into the Wang system and index them so that field and VACO staff will have access to current VA policy on a given issue in a timely manner?

RESPONSE 2: Existing Wang office automation equipment configurations do not provide all regional office employees with ready access to Wang terminals. Therefore, while we recognize the need to include DVB directives in an automated mode, we will be unable to implement such a process until the equipment needed for accessing the information is in place.

QUESTION 3: How much CPU and Input/Output time are being used per week at each Regional Office?

RESPONSE 3: Installation of the system has just been completed, software and networking implementation will be completed by May 1. The operating system currently available for the Wang systems in the field (VS 65) does not monitor CPU utilization. Wang projects the release of a new VS 65 operating system in June 1987 which will provide that capability. DVB plans to install the new operating system by August 1987 and implement CPU capacity planning and monitoring procedures at that time. Until then, it would be hard to measure machine utilization.

QUESTION 4: Will use of the Wang communications capability reduce DVB's telecommunications costs?

RESPONSE 4: We anticipate some reduction in FTS, mail, facsimile, and teletype costs once the Wang office automation network is fully operational. In addition, we expect considerably easier and more effective communication to result.

QUESTION 5A: What has DVB done to encourage Wang system users to utilize system capabilities other than word processing?

RESPONSE 5A: DVB developed an extensive Wang training program which encourages full utilization of system capabilities. DVB has also provided some software packages to support development and expansion of office automation applications in the field.

QUESTION 5B: Are there any plans to use computing capabilities of the Wang CPU's?

RESPONSE 5B: Regional offices have been using the office automation equipment to compensate for the lack of ADP equipment. However, we have a policy which states that the office automation system was purchased and sized primarily for office automation use. Any ADP uses are by-products of the provision of office automation functionality and will migrate to ADP equipment when it is available.

QUESTION 6: Are there any plans to expand the number of Wang work stations?

RESPONSE 6: Only minor enhancements to the current base of Wang office automation equipment are budgeted. There are no plans to significantly expand the number of work stations provided for office automation. However, we do have a strategy which may result in Wang CPU's being available through other terminals; i.e. those DVB workstations which are multifunctional might be used for data processing in addition to the office automation capabilities for which they were purchased.

QUESTION 7A: What software and training support has been provided to users of the Wang system?

RESPONSE 7A: The Mentor On-line training and Help-reference software package was purchased and installed on all DVB office automation systems. This software provides automated training on the full range of Wang system capabilities and is available to all Wang users. In addition, Wang training vouchers were made available for use by the field to train station users in Wang classes.

DVB also worked closely with Wang to design a five phase training program to meet the needs of DVB system administrators. All system administrators will have completed this program by fall of this year and will have the training necessary to assist and support system users.

QUESTION 7B: Please also describe initiatives undertaken to train VA professional staff in the use of "Wang Office" software.

RESPONSE 7B: There is an interactive training package included as a part of the Wang "Office" software available to all system users. In addition, the system administrators who attended the training programs are encouraged to conduct training sessions for local users. Regional Office Directors attended a Wang demonstration during a Directors Conference held earlier in the year. This demonstration provided exposure to the advantages of "Office" software and encouraged its use.

QUESTION 8A: Has the effectiveness of the "20/20" software been evaluated?

RESPONSE 8A: "20/20" is essentially a Wang version of LOTUS 1-2-3. We are still in the first phases of developing office automation applications using "20/20" software. However, "20/20" is being used extensively in the regional offices in place of Lotus. Since the full range of "20/20" applications has not been developed, evaluation of its effectiveness in DVB operations cannot be determined. It does make each Wang terminal on a VS system capable of spreadsheet functions, a key capability.

QUESTION 8B: What were the results?

RESPONSE 8B: N/A

QUESTION 8C: How much was expended to procure this software?

RESPONSE 8C: The cost of the "20/20" software was $151,200 (one software package for each CPU in the DVB office automation system at $2,160 each).

QUESTION 9: What proportion of funding for DVB modernization has gone to Wang hardware, software, training and support?

RESPONSE 9: Of the $29 million approved through 1987 for modernization, $5.8 million has been or will be used to support the Wang office system. In 1985, prior to the full development of the Modernization Plan, funds totalling $7.4 million were also used to support the Wang office system.

Of the total modernization budget of approximately $150 million, $11.4 million is planned for office automation which is in addition to the $7.4 million in 1985.

QUESTION 10: How many FTEE have been allocated to Wang program development in VACO and the Regional Offices?

RESPONSE 10: DVB established a Wang support activity in the Office of ADP Systems Management to assist in implementation and administration of the office automation systems in VACO and in the field. The Wang support activity serves as a point of contact for all inquiries related to the use of Wang equipment, including the development of local applications. Currently 4 FTE are assigned to this function. Recruitment for an additional 7 FTE is in process. Once Wang is fully implemented and institutionalized, the staff will be reallocated to other functions.

Also, each regional office has designated a system administrator and an alternate to support the Wang systems. System administrator responsibilities are most often in addition to other regional office duties.

MEDICAL CARE

Question for Dr. Errera

Question: 1. An amendment I offered to H.J. Res. 102, which has been signed into law as Public Law 100-6, provided $5 million to treat homeless chronically mentally ill veterans in community residential treatment centers.

Question: 1a. How will this money be used?

Answer: 1. The Mental Health and Behavioral Sciences Service, in collaboration with Social Work Service, Readjustment Counseling Service, and Nursing Service, is requesting demonstration project applications from VA field facilities focusing on assessing, treating and placing homeless chronically mentally ill (C.M.I.) veterans as required by Public Law 100-6 (Attachment 1).

These proposals may be descriptions of existing, expanded or newly created VA efforts targeted to these populations and integrated into existing coalitions of public agencies and voluntary organizations which address the problems of homeless C.M.I. veterans in urban or rural areas.

Each project will be an integral clinical component of a VA Medical Center Psychiatry Service. There will be a project team of VA clinician(s) consisting of a psychiatric social worker, psychiatric clinical nurse specialist or other health care professionals with appropriate skills. The project team will report to the Chief, Psychiatry Service for patient care issues, and will coordinate community development activities with the Chief, Social Work Service and will coordinate professional efforts and other program activities with appropriate professional and administrative service chiefs such as Nursing, Social Work, Psychology, Medical Administration, Fiscal and Supply as well as Vet Center team leaders.

2. There are to be four major components to these efforts:

   - Proposals must be integrated with an existing urban or rural coalition of public agencies and volunteer organizations working with the homeless.
   - Medical centers selected to participate in the project are to engage homeless chronically mentally ill veterans residing temporarily in shelters or in the streets. Such outreach efforts will be provided by VA professionals hired through the demonstration project, by VA Medical Center or Vet Center personnel already performing these functions, or by other existing community outreach workers. VA Medical Centers will provide comprehensive psychiatric and medical work-ups prior to placement in the contract program.
   - VA Central Office will provide funds for contracted placement of these veterans in mutually acceptable community-based psychiatric residential treatment settings for up to six months.
   - The project proposals must include a minimal evaluation design which will be part of the proposal. This evaluation design will be reviewed and may be modified and possibly incorporated into an overall system-wide project evaluation study.

3. Other Available Sources of Information:

   In 1985, the Robert Wood Johnson Foundation joined with the Pew Memorial Trust to establish programs to provide health care to the homeless in the following nineteen cities: Albuquerque; Baltimore; Birmingham; Boston; Chicago; Cleveland; Denver; Detroit; Los Angeles; Milwaukee; Nashville; Newark; New York; Philadelphia; Phoenix; San Antonio; San Francisco; Seattle; and Washington. We will consider using these sites as well as other cities and more rural areas where there are significant numbers of homeless C.M.I. veterans and where coordinated programs for the homeless are in place.

   Further consultation for developing the application may be obtained from Paul Errera, M.D., FTS 373-3416/2473; Larry Lehmann, M.D., FTS 373-2509; or Gay Koerber, FTS 373-5193/5194.

Question: 1b. How will the program be implemented?

1c. Please provide me with a copy of the VA's implementation plan.

Answer: Implementing instructions and materials are still under development. For example, a contract mechanism is being developed under which VAMCs selected to participate in this program may enter into contracts with qualified psychiatric residential treatment facilities. General guidelines are being developed as well to provide instructions for outreach, determination of eligibility, and placement of homeless chronically mentally ill veterans under this program. The first phase of implementation is the selection of VA centers which will participate in the pilot. That process will involve the following:

1. Selection Process:

   - Application must be received by March 27, 1987.
   - The original proposal should be sent to your Regional Director's office in VA Central Office. Appropriate number of copies should be concurrently sent as directed in the Application packet to the Regional Director's field office, the Regional Mental Health Coordinator and the Director, Mental Health and Behavioral Sciences Service, VA Central Office.

- The first screening of the applications will occur at the regional (VA Central Office and field office) level where the Regional Directors and the Mental Health Coordinators will assess the proposals according to procedures of their choosing and using the selection criteria described in Section D.

- Information from the regional level screening along with one copy of the application will be sent to Mental Health and Behavioral Sciences Service in Central Office where a second level review will occur. A panel chaired by the Director, Mental Health and Behavioral Sciences Service and consisting of representatives from the offices of the ADCMD for Programs, Planning and Policy Development, the ACMD for Clinical Affairs, the ACMD for Geriatrics and Extended Care, as well as representatives from the Deputy Regional Directors and Nursing, Social Work, Readjustment Counseling, Medical Administration, and Mental Health and Behavioral Sciences Services will review the field recommendations and prioritize the proposals.

- Final recommendations will be presented by the panel to the Chief Medical Director for his approval.

2. Selection Criteria:

Each proposal should address the following issues:

- Present a strategy integrating the VA effort for chronically mentally ill veterans into an existing community, rural, city or state consortium working with the homeless.

- Describe specific on-site efforts needed to initiate contacts with the homeless veteran. Case finding and treatment personnel will function primarily as case managers for eligible veterans in the shelters, in the streets as necessary, and in contracted community residential treatment facilities.

- Describe facilities that will be available in the community to provide contracted residential treatment capabilities responsive to the particular needs of this population. The facilities may be halfway houses or supervised group homes linked with rehabilitation and resocialization day programs. The Community Program staff who are currently providing services to the homeless population should be able to help identify appropriate existing settings. These settings must meet VA standards. Draft standards have been provided in this package as preliminary guidance and may be subject to modification prior to final concurrence and approval. Given the treatment focus of this effort, Community Residential Care (CRC) facilities in which veterans are placed at their own expense (and which VA inspects) are excluded from participation in this demonstration project.

- Describe how the program will be integrated within the VA Medical Center particularly focusing on the resources available to provide comprehensive psychiatric and medical workups for the homeless chronically mentally ill veterans.

Question: 1d. As an expert in the treatment of the chronically mentally ill, what, in your opinion, should be done to address the needs of homeless veterans--many of whom suffer from chronic mental illness disabilities?

Answer: The program described under a, b & c addresses, we believe, the treatment needs of the homeless C.M.I. veterans.

MEDICAL CARE STAFFING

Question: 1. The Senate Committee on Veterans' Affairs has recommended to the Senate Budget Committee an addition of 7,177 FTEE over the President's request for the medical care account, for a total of 197,507 FTEE.

1.A. If the Committee's recommendation is adopted, what percentage of these additional FTEE would be added at the beginning of FY 1988 and at what point would the remainder be added?

Answer: FTEE, by definition (hours worked divided by hours available)(e.g. eighty hours worked by one person or eight hours worked by each of ten persons in one eighty hour bi-weekly pay period would equal one FTEE) is an annual figure. It would be the VA's intention to distribute the FTEE immediately after it was made available to the Medical Centers. The precise dates of the new employment would depend on local conditions for recruitment for whatever specialties were felt needed by Medical Center Directors.

Question: 1.B. What would be the budgetary impact if a percentage of the additional FTEE was added back at mid year or throughout the year instead of all the additional FTEE being added at the beginning of the fiscal year?

Answer: As noted above, as long as the discussion revolves around the concept of FTEE, there would be no budgetary impact of bringing on the same number of FTEE (an annual figure) at the beginning of the year or mid way through the year, since the same number of hours would be worked in either case. In the presumed case posed by the question, an increase of 7,177 FTEE over the President's budget represents 3,367 more than the current authorized FTEE for FY 1987. The balance of 3,810 would be on board as of October 1, 1987, since they were authorized in the prior year. If the difference of 3,367 FTEE were used evenly over the entire course of the year, an additional 3,367 full time individuals would be required on October 1, 1987. If the 3,367 FTEE were used over the last half of the year, it would take twice that number of full time individuals, but the budgetary impact would be identical.

VET CENTERS

QUESTION: 1. Please discuss the VA's plans regarding the Vet Center program.

ANSWER: The VA's plans to comply with existing legislation in relocating a majority of vet centers to VA medical facilities during the prescribed 24-month transition ending on September 30, 1989. Two reports concerning the Agency's plans and timetable for implementing this transition will be delayed several months at the request of the Chairman, Senate Veterans' Affairs Committee. The first report, originally due April 1, 1987, will evaluate the effectiveness of the program in meeting the readjustment needs of Vietnam era veterans, the extent to which the readjustment needs of same remain unmet, and the extent to which the provision of readjustment counseling services through community-based facilities is needed. The other required report, originally due July 1, 1987, will provide plans and a timetable for implementing the movement of a majority of Vet Centers to VA medical facilities within a 24-month transition period ending September 30, 1989, as required by P.L. 99-576.

As an issue separate from the law, there are several factors that make it possible and desirable for the VA to plan relocation of some community based vet centers to VA medical facilities in the months ahead, a plan which would affect only 9 of 188 sites. These relocations would be small scale projects, methodically planned, and based upon the gradual evolution of client needs. Of the factors that indicate desirability for relocation are the maturation and success of the vet center program, the considerable changes which have occurred since 1980 in the relationship between Vietnam era veterans and the VA system, and the growth in understanding and appreciation of the services needed by the Vietnam era veteran population on the part of VAMC staff.

Relocations planned would not affect the administrative or clinical operations of the moved vet centers. Client needs and quality of services would be of the highest priority in considering sites for possible relocation. Our view is that these relocations will highlight the Agency's commitment to readjustment counseling service provision, and will provide useful data for future planning.

QUESTION: 2. What criteria has been or will be utilized to determine which Vet Centers will be transitioned into VA medical centers?

ANSWER: Criteria for planning and implementing the relocation of vet centers to VA medical facilities have been developed within DM&S, and authorized by the Chief Medical Director. A copy of these criteria are attached for your review.

ATTACHMENT A

Criteria: For Relocation of Vet Centers to Medical Facilities

Criteria to be used for selection of vet centers to move to medical facility grounds (a) as pilot program affecting 7-14 sites during FY 1987, and (b) a larger number of sites, according to present law, during the period October 1, 1987 to September 30, 1989.

1. Acceptability:

    a. Assessment by Director, Readjustment Counseling Service, and Regional Director, after consultation with VAMC Director and Regional Manager for Readjustment Counseling that move is feasible.

    b. Recommendation for approval by Director, Readjustment Counseling Service to the Chief Medical Director thru 10B and 10X.

2. Catchment Area Distributions of Vietnam Era Veterans Population by Census:

    County-based census data for Vietnam Era veteran population will be developed for the catchment area of present vet center site and for medical facility location. The question to be answered: Is the medical facility adequately strategically located with respect to VEV population density, vis-a-vis the present vet center site? This factor will be assessed in relation to the total number of veterans seen by the vet center to date, since inception, which furnishes an estimate of the proportion of the target population already served, vs. the proportion yet to be served.

3. Distance (Mileage) Between Vet Center and Medical Facility:

    Distance between vet centers and medical facilities varies considerably, from a few miles to over a hundred miles. Vet Centers closer to medical facilities will rank higher on this criterion, depending, however, on analysis from criteria (1) and (2).

4. State Vietnam Era Veteran Outreach Centers:

    Some states have state VEV outreach centers, some of which provide services similar to VA vet centers. Availability of comparable services will be assessed, in relation to geographical distances, population concentrations, and anticipated duration of such state centers.

5. Vietnam Veterans Resource Centers:

With ten vet centers designated for re-configuration as VVRCs, these sites should be maintained as community-based facilities at least for the duration of the VVRC pilot project. Subsequent developments would then be contingent on outcome of pilot project.

6. Special Population Factors:

Certain vet centers principally serve an ethnic minority veteran population. Local assessment should determine availability and acceptability of medical facility site to such populations.

7. Transportation and Parking:

Assessment of public transportation, and, where applicable (i.e., high-density metropolitan areas) parking advantages and disadvantages of medical facility site in comparison to vet center location.

8. Availability, Cost and Suitability of Medical Facility Space:

To be assessed: (a) Presently available medical facility space; (b) One-time cost of space adjustments at medical facility, and (c) Operational suitability of medical facility space, in relation to other services.

9. Recurring Environmental Costs Comparison:

Total recurring environmental costs at present vet center location (rent, utilities, maintenance, parking) will be compared to such recurring costs at medical facility.

10. Contract Program Impact:

Size and workload projection, as affected by mileage and population density considerations, will be assessed for impact of move, in order to project presence or absence of pressure on contracts dollar utilization.

11. Actual Workload Trends at Present Vet Center:

Actual workload trends at present vet center will be assessed, and related to other factors, including distance and veteran population densities. Examples of case-by-case analysis: (a) declining workload reflecting accomplishment of mission may favor avoidance of cost of move though decreasing size, or closing of present vet center, and (b) continuing high workload, notwithstanding relatively low veteran population, may favor a move. This analysis will be required for certain sites because of differing prevalence rates of readjustment difficulties in the target population.

QUESTION: 3. If the transition date for the Vet Center program is extended by one year, how would this impact on your plans regarding this program?

ANSWER: If the date of the transition for vet center relocations is delayed by one year as specified in pending legislation (S. 6 and S. 229), the Agency would likewise delay the development of any plans for the onset of large scale vet center moves.

CONSTRUCTION

Question: 1. Section 302 of Public Law 99-166 required annual reports on the VA's Five Year Strategic Operational Plan for the Operation and Construction of medical facilities. That report was due in June 1986.

a. When can we expect to receive that report?

b. Will it include proposed mission changes at facilities other than the proposed change at the VA Medical Center in Walla Walla, Washington?

Answer: a. The FY 1987-FY 1991 Five Year Medical Facility Development Plan was transmitted to the Senate Veterans Affairs Committee on March 6, 1987.

b. Yes. In accordance with P.L. 99-166 a section has been added to the plan identifying the mission of each existing or proposed medical facility; any planned change in that mission and the operational steps needed to achieve that change.

PARKING GARAGE REVOLVING FUND

Question: 1. Please provide the obligation plan for the parking garage revolving fund by individual project (including leases) for the next five fiscal years.

Answer: The following is the VA's estimated obligation plan for the parking garage revolving fund ($ in thousands):

Location	1987	1988	1989	1990	1991
Allen Park, MI			$23,200	$ 1,300	$ 500
Atlanta, GA			7,000	800	
Baltimore, MD	$ 8,375	$ 625			
Birmingham, AL					14,800
Cleveland, OH					3,800
Durham, NC		8,440	730	330	
East Orange, NJ					4,900
Gainesville, FL				12,200	800
Huntington, WV		3,700	400		
Palm Beach, FL				4,000	300
San Francisco, CA	3,600	400			
Syracuse, NY	6,100	43	557		
Leases*	306	336	348	359	370
Total	$18,381	$13,544	$32,235	$18,989	$25,470

*In FY 1987 the VA will lease at the following locations: Albany, NY; Chicago(Lakeside), IL; Denver, CO; Los Angeles, CA; Milwaukee, WI; New Orleans, LA; and Salt Lake City, UT. In FY 1988 through FY 1991 the VA will lease at the following locations: Albany, NY; Birmingham, AL; Chicago(Lakeside), IL; Denver, CO; Los Angeles, CA; Milwaukee, WI; New Orleans, LA; Oakland, CA; Pittsburgh, PA; Salt Lake City, UT; Sioux Falls, SD; and Tulsa; OK.

Question: 2. Please provide the estimated amount of parking fee collections for the next five fiscal years.

Answer: Presently, the Agency is undertaking a review of multiple options to implement a fee parking structure. Some of these options include: charging for only those projects and leases paid for by the fund, charging in all urban areas, charging in those locations where VA has previously built multi-story parking facilities, and charging in all possible locations. The review will determine who will be charged and how much will be charged. The results of this review will be formulated into a policy. We anticipate that prescribing a schedule of parking fees in accordance with section 223 of Public Law 99-576 will require promulgation of a regulation in accordance with the provisions of the Administrative Procedures Act.

The Agency will be pleased to provide the Committee with a five-year estimate based on these policy decisions.

ADP

Question: 1.a. Are there any studies or evaluations currently being conducted by the VA--either in-house or by contract--on DM&S ADP systems?

Answer: Yes, see explanation below.

1.b. If so, provide me with a list of those projects.

Answer: The recently completed Post Implementation Evaluation of DHCP Initial Core by Price-Waterhouse establishes that computerization within VAMCs has resulted in savings to the agency. At VA request, Price-Waterhouse also performed a prospective investment analysis on the top priority enhanced DHCP applications. Their analysis showed a 9.8 percent rate of return to the government on the 87-88 DHCP Equipment investment. On February 23, the consulting firm of Booz-Allen and Hamilton submitted their final report to the VA which was a strategic comparison of the DHCP and IHS approaches to providing VA wide hospital automation. They projected DHCP costs at $777 million versus $1.5 billion for IHS.

Arthur Anderson & Co. is monitoring progress and conducting evaluations of the three IHS implementations and will submit their final report this year following final acceptance testing of the three systems.

We have contracted with FEDSIM to review our configuration management strategies and make recommendations.

WRITTEN QUESTIONS FROM SENATOR SPECTER TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

Question: 1. I am concerned about the Veterans Administration's internal development of hospital information systems. It is my understanding that there is some difference of opinion as to whether these systems should be developed on an "in-house" or a contracted basis.

1.a. Has the VA developed a long term plan for the development of these systems?

Answer: Yes, the development of the Decentralized Hospital Computer Program has been planned and is being implemented in three phases: CORE, Enhanced DHCP, and Comprehensive DHCP.

Initial CORE (patient registration, admission/discharges/transfers, scheduling, and outpatient pharmacy) is now fully implemented. Inpatient Pharmacy and Clinical Laboratory are in the process of implementation, and scheduled for completion by the end of this year.

Enhanced DHCP applications have been prioritized and will be implemented in priority order. The eight top priority functions have already been justified by cost/benefit analysis through the OMB process. The first four - radiology, dietetics, record tracking, and fiscal/supply - will be supported by the FY 1987 equipment purchase, the next two - surgery and DMMS - by the 1988 purchase, and nursing and mental health will be supported by the FY 1989 purchase.

Remaining Enhanced DHCP applications are planned, although they have not yet been cost-justified and approved. These applications are quality assurance and office automation, medicine, DVB interface, FEE basis, social work, engineering, dentistry, extended care, nuclear medicine, personnel, readjustment counseling, and message handling/switching.

Comprehensive DHCP will complete the system by providing automated support in the form of optional modules which address clinical or support services not involved in carrying out physicians' direct orders or which do not have as high or complex a volume of paperwork as those addressed in Enhanced DHCP. Functions identified for Comprehensive DHCP include audiology and speech pathology, optometry, neurology, laboratory expansion, voluntary service, chaplain service, research administration, prosthetics, podiatry, library service, building management, recreation service, canteeen service, medical media, and security police. Implementation of Comprehensive DHCP will follow Enhanced DHCP at such time that cost justification has been accomplished.

Question: 1.b. How much has the VA budgeted for this purpose?

Answer: The projected obligations for CORE and the currently approved Enhanced DHCP functions for fiscal years 1988 through 1997 are attached. As stated above, CORE includes the medical administration functions, pharmacy, and clinical laboratory, and the approved Enhanced DHCP functions are radiology, dietetics, medical records tracking, fiscal/supply, surgery, Decentralized Medical Management System, nursing, and mental health.

Question: 1.c. Is an in-house system more effective and efficient than one that is contracted out? What evaluations have been made of the differences?

Answer: The results of the Booz-Allen study comparing DHCP with commercial alternatives (as typified by the three IHS implementations) support the VA's strategy of in-house development and operation of its hospital information systems. The VA has had experiences with contracting out ADP systems in the past. The contractual vehicle and dependence on the vendor for support have proven to be a hindrance for adapting these systems in a timely manner to changing requirements brought on by legislation and executive order.

Question: 1.d. If there are such studies, I would appreciate seeing them.

Answer: A copy of the study will be sent under separate cover. The study showed the in-house alternative to be significantly cheaper, more acceptable to end users and a better fit in the VA environment. Commercial systems are more expensive because the hardware is more technically sophisticated and costs are not justified based on a return on the investment; they are not a good fit with VA hospital operations without substantial customization which contractor staff would do at contractor rates; and they have added costs associated with vendor profit and handling charges. The VA's DHCP system adheres to the FIPS specifications and is the least costly approach because it is vendor independent, allowing for equipment purchases through open competitive procurements. DHCP is intended to do what the VA needs most from ADP, at the least cost and in a way that is consistent with the VA's hospital operating procedures.

D H C P LIFE CYCLE COST ESTIMATES - INITIAL AND FULL CORE (000)

MARCH 14, 1987

SUB-ACCOUNT	DESCRIPTION	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	TOTAL
----	VAMC FTEE *	(323)	(395)	(395)	(395)	(395)	(395)	(395)	(395)	(395)	(395)	(395)
1096	VAMC PAY & BENEFITS	7,971	10,733	10,733	10,733	10,733	10,733	10,733	10,733	10,733	10,733	104,568
1096	VAMC FRINGE BENEFITS	2,200	2,962	2,962	2,962	2,962	2,962	2,962	2,962	2,962	2,962	28,861
----	ISC FTEE *	(147)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)	(210)
1096	ISC PAY & BENEFITS	4,348	6,839	6,839	6,839	6,839	6,839	6,839	6,839	6,839	6,839	65,900
1096	ISC FRINGE BENEFITS	1,200	1,888	1,888	1,888	1,888	1,888	1,888	1,888	1,888	1,888	18,188
2103	PROGRAM TRAVEL	1,574	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	1,443	14,561
2104	TRAINING TRAVEL		41	41	41	41	41	41	41	41	41	369
2514	SYS ANAL & PROG	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	1,188	11,880
2544	ADP MAINTENANCE	8,087	8,087	8,087	8,087	8,087	8,087	8,087	8,087	8,087	8,087	80,870
2580	MISC CONTRACTS	222	426	426	426	426	426	426	426	426	426	4,056
2583	TRAINING - FED		102	102	102	102	102	102	102	102	102	918
2584	TRAINING - COM	88	168	168	168	168	168	168	168	168	168	1,600
2623	RECORDING MEDIA	1,505	200	200	200	200	200	200	200	200	200	3,305
2624	SOFTWARE	70	528	528	528	528	528	528	528	528	528	4,822
2660	OPERATING SUPPLIES	1,189	3,335	3,335	3,335	3,335	3,335	3,335	3,335	3,335	3,335	31,204
3123	ADP EQUIPMENT	578	578	578	578	578	578	578	578	578	578	5,780
----	SITE PREP											0
	TOTAL	30,221	38,518	38,518	38,518	38,518	38,518	38,518	38,518	38,518	38,518	376,882
	CUMULATIVE		68,738	107,256	145,774	184,292	222,810	261,328	299,846	338,364	376,882	

NOTE - TOTALS MAY VARY SLIGHTLY DUE TO ROUNDING

- FY 88 HAS BEEN ADJUSTED TO AGREE WITH THE BUDGET SUBMISSION EXCEPT FOR FRINGE BENEFITS
- FRINGE BENEFITS COMPUTED AT 26.7% OF PAY & BENEFITS VS THE 12.5% INCLUDED IN THE BUDGET SUBMISSION

* - FTEE ESTIMATES WILL CHANGE AS IRM STAFFING GUIDELINES ARE DEVELOPED AND APPLIED

D H C P LIFE CYCLE COST ESTIMATES - ENHANCED (000) MARCH 14, 1987

SUB-ACCOUNT	DESCRIPTION	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	TOTAL
----	VAMC FTEE *	(72)	(154)	(154)	(154)	(154)	(154)	(154)	(154)	(154)	(154)	(154)
1096	VAMC PAY & BENEFITS	1,777	4,184	4,184	4,184	4,184	4,184	4,184	4,184	4,184	4,184	39,437
1096	VAMC FRINGE BENEFITS	490	1,155	1,155	1,155	1,155	1,155	1,155	1,155	1,155	1,155	10,885
----	ISC FTEE *	(35)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)	(51)
1096	ISC PAY & BENEFITS	1,035	1,661	1,661	1,661	1,661	1,661	1,661	1,661	1,661	1,661	15,984
1096	ISC FRINGE BENEFITS	286	458	458	458	458	458	458	458	458	458	4,411
2103	PROGRAM TRAVEL	356	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125	1,125	10,481
2104	TRAINING TRAVEL		37	37	37	37	37	37	37	37	37	333
2514	SYS ANAL & PROG											0
2544	ADP MAINTENANCE	6,946	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	10,125	98,071
2580	MISC CONTRACTS	87										87
2583	TRAINING - FED		279	92	92	92	92	92	92	92	92	1,015
2584	TRAINING - COM	292	80	20	20	20	20	20	20	20	20	532
2623	RECORDING MEDIA		742	212	212	212	212	212	212	212	212	2,438
2624	SOFTWARE	426	526	526	526	526	526	526	526	526	526	5,160
2660	OPERATING SUPPLIES	2,279	3,124	3,124	3,124	3,124	3,124	3,124	3,124	3,124	3,124	30,395
3123	ADP EQUIPMENT	20,177	26,488	574	574	574	574	574	574	574	574	51,257
----	SITE PREP											0
	TOTAL	34,151	49,985	23,294	23,294	23,294	23,294	23,294	23,294	23,294	23,294	270,486
	CUMULATIVE	34,151	84,136	107,430	130,724	154,017	177,311	200,605	223,898	247,192	270,486	

NOTE - TOTALS MAY VARY SLIGHTLY DUE TO ROUNDING

- FY 88 HAS BEEN ADJUSTED TO AGREE WITH THE BUDGET SUBMISSION EXCEPT FOR FRINGE BENEFITS

- FRINGE BENEFITS COMPUTED AT 26.7% OF PAY & BENEFITS VS THE 12.5% INCLUDED IN THE BUDGET SUBMISSION

* - FTEE ESTIMATES WILL CHANGE AS IRM STAFFING GUIDELINES ARE DEVELOPED AND APPLIED

WRITTEN QUESTIONS FROM SENATOR STAFFORD TO THE VETERANS' ADMINISTRATION AND THE RESPONSES

QUESTION ONE: The Vet Centers in Vermont have been very successful in assisting our Vietnam Veterans as well as those who are homeless. Vermont currently has three vets centers, two of which cover the northern most part of the State. If the VA decides to transition these Centers to the Regional level, would the VA be willing to subsidize the time and travel expense it will take these veterans to go to the Regional Center in White River Jct.?

ANSWER: There are two vet centers operative in Vermont, both attached to the White River Junction VAMC. Vet Center (118) is located in South Burlington, and Vet Center (122) is located in White River Junction. Criteria developed within DM&S for selecting vet centers for possible relocation include consideration of geographical distance between the vet center and the host VA medical facility. Other factors being equal, relocation is a low probability for sites located at considerable distance from VA medical centers.

QUESTION TWO: I understand that there are several studies being conducted regarding the Vet Centers and I am sure my colleagues, as well as myself, would like to have a specific timeline as to when the evaluation of all these studies will be completed and a decision by the VA will be made as to the transitioning of these Centers and which Vet Centers will be transitioned and which shall continue as is?

ANSWER: Public Law 98-160 authorized the Agency to conduct the National Vietnam Veterans Readjustment Study (NVVRS) to determine the types and prevalence of readjustment problems among Vietnam era veterans. Delays in the study process have resulted in the following reformulated timelines. The study procedure has been divided into three waves of 1000 interviews each. The first wave of interviews will be completed, analyzed, and ready for report to Congress by October 1, 1987. Completion of all three waves (3000 interviews) will be accomplished by October 1, 1987, analyzed with a final report to the Agency by December 1988, and ready for report to Congress by February 1989.

Program evaluation and effectiveness studies have also been conducted by Program Analysis and Evaluation within the VA, and by the U.S. General Accounting Office. Both reports are currently in draft form. Also, the Agency's Advisory Committee on Vietnam Veterans has reviewed the program twice and made recommendations to the Administrator, and a Department of Medicine and Surgery Planning Committee has conducted a 3-year study of the program.

The VA values the concept of relocation of some vet centers to VA medical centers within the context of the program's gradual evolution contingent upon client needs and utilization patterns. Two reports due to Congress this year will be delayed several months at the request of the Chairman of the Senate Veterans Affairs Committee. The first of these, originally due April 1, 1987, will evaluate the effectiveness of the program in meeting the readjustment needs of Vietnam era veterans, the extent to which the readjustment needs of same remain unmet, and the extent to which the provision of readjustment counseling services through community-based facilities is needed. The other required report, originally due July 1, 1987, will provide plans and a timetable for implementing the movement of a majority of Vet Centers to VA medical facilities within a 24-month transition period ending September 30, 1989, as required by P.L. 99-576.